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ABSTRACT

This report studies the combined impact of Michigan's two school-choice policies: charter schools, known as "Public School Academies," and interdistrict student transfers. The report examines geographical patterns of school-choice participation among the state's school districts, and investigates how schools and districts have responded to the challenges and opportunities posed by choice policies. To date, school-choice policies are having both positive and negative effects on Michigan's education system. Further expansion of these school-choice options is desirable, but only if accompanied by improvements in policy design and implementation. While such policies open up new opportunities for poor students, and make schools more responsive to parents' preferences, they also impose costs on some schools and students, including some of the state's neediest. Policy makers, therefore, should focus their attention on the rules and administrative procedures that govern the operation of choice policy. A report of ongoing research at Michigan State University regarding new choice policies in the state is appended. (Contains notes for each chapter, an appendix summarizing the research methodology, and an index.) (DFR)

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SCHOOL CHOICE POLICIES IN MICHIGAN:

THE RULES MATTER

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SCHOOL CHOICE *and* EDUCATIONAL CHANGE
MICHIGAN STATE UNIVERSITY

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School Choice Policies in Michigan:

The Rules Matter

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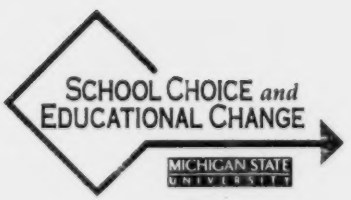

EXECUTIVE SUMMARY

This report seeks to shift the debate about school choice policies in Michigan from the ideologically polarized question of whether such policies are "good" or "bad" to the more fruitful question of how to design policies that reap the benefits of choice while minimizing potential harms.

This is the first report to study the combined impact of Michigan's two school choice policies, charter schools (officially known as Public School Academies, or PSAs) and inter-district student transfers. We examine geographical patterns of school choice participation among Michigan's school districts, and investigate how schools and districts have responded to the challenges and opportunities posed by choice policies. Our conclusion? So far, school choice policies are having both positive and negative effects on Michigan's education system.

Further expansion of school choice opportunities is desirable, but only if accompanied by improvements in policy design and implementation. Choice policies open up new opportunities for students, especially poor students. They also make schools more responsive to parents' preferences. Choice also imposes costs on some schools and students, however, including many of Michigan's neediest.

We therefore urge policy makers to focus their attention on the rules and administrative procedures that govern the operation of choice policy. The rules matter decisively in the emerging market for schooling. Different rules create different incentives. Different rules produce different outcomes. Carefully designed rules can make the market work more efficiently and effectively. They can help to ensure that choice improves the educational opportunities available for all of Michigan's children.

KEY FINDINGS

- **Michigan's school choice policies have had limited impact on enrollments in most school districts. They have had a moderate impact in others, and a large impact in a small but vital few. Some high-impact districts have experienced major losses of students and revenues, while others have enjoyed substantial gains.**

  - The rate of participation in charter schools and inter-district choice has increased rapidly in Michigan. In 1998-99, about 34,000 students enrolled in 138 charter schools, and nearly 15,000 students enrolled in neighboring school districts, accounting for about 3 percent of Michigan students.

  - Approximately 85 percent of Michigan's PSAs are located in metropolitan areas, with half of these schools located in central city school districts. PSAs tend to locate in districts with relatively low MEAP scores, and in districts with relatively high numbers of poor and minority students.

  - About half of all Michigan school districts are open to the enrollment of non-resident students under inter-district choice policies. Participating districts are located in both rural and urban settings. Many affluent or growing school districts remain closed to choice students.

  - Students who transfer under inter-district choice policies are moving to districts with higher family incomes, higher MEAP scores, and lower concentrations of minority students than their home school districts. Student transfers reinforce longstanding patterns of community growth and decline that originate in the residential housing market.

THE RULES MATTER

- **To date, PSAs are not pioneering innovations in teaching and learning.**

  - Some PSAs offer distinctive programs featuring, for example, African-centered education or specialized vocational study, but few have experimented with new models of curriculum or instructional practice.

  - The innovations that have been adopted in PSAs tend to be "add-ons" to traditional educational programs, including all-day kindergarten. Some PSAs that experimented with innovative designs have abandoned their original plans in favor of more traditional programs.

  - The incentives and conditions facing most PSAs work against innovation. Many parents favor schools that offer traditional curriculum and instruction. Many PSA teachers are new and are just learning the rudiments of their profession. The development of new programs and practices is expensive, time consuming, and uncertain. In addition, PSAs face immediate pressure to demonstrate their effectiveness on MEAP and other tests.

  - There are virtually no mechanisms in place that would allow traditional public schools and PSAs to learn from each other's successes and failures. As a result, choice policies have not proven to be powerful engines for educational improvement.

- **PSAs feature new approaches to school governance and management.**

  - Along with oversight from chartering agents, the market is the primary instrument of PSA accountability. If PSAs do not satisfy their constituents, they will not survive. This simple market test represents a dramatic departure from the ways most public schools have traditionally been held accountable.

  - The majority of Michigan's PSAs now contract for services with private, for-profit educational management organizations (EMOs). EMO management of charter schools is much more extensive in Michigan than in other states.

  - The emergence of EMOs raises critical policy questions. How will EMOs affect the distribution of authority and influence in schools? How will EMOs be held accountable for their use of public funds?

- **School districts challenged by PSAs and inter-district choice have begun to respond in a variety of ways.**

  - Some responses are competitive. Districts have added programs and increased marketing in order to make themselves more attractive to parents and students. School districts rather than schools organize most responses to competitive pressures from school choice policies.

  - Other responses are cooperative. Districts have entered into agreements with neighboring districts, EMOs, and other external actors to offer new programs or to manage changes associated with choice.

  - Districts losing students to choice options often do not perceive student mobility as a useful signal to guide educational improvements because parent preferences are not strictly related to school quality and responsiveness.

  - In a few high-impact cases, district responses may be unable to reverse decline. Most of these districts already were losing students before the introduction of school choice policies. The departure of additional students through choice has further weakened their capacity to respond. Their continuing decline may harm those students left behind by choice.

  - Intermediate School Districts have orchestrated some cooperative choice options. ISDs broker agreements among local districts that produce shared programs and collective responses to choice.

- **School choice policies accelerate trends toward social sorting of students, families, and communities.**

  - Many PSAs target "niche markets" of parents who prefer schools featuring specific ethnic or values orientations.

  - PSAs increasingly are taking steps to shape their student populations. Some require parents to fill out application forms, or to participate in interviews before seeking admission. Others expel students who do not fit in.

THE RULES MATTER

- **An important criterion for program design and student selection in PSAs appears to be cost.**

  - Most PSAs enroll only elementary students, who are substantially less costly to educate than secondary students. Most PSAs provide fewer and less costly special education services than neighboring public school districts.

  - Insofar as PSAs are successful in enrolling low-cost students and excluding high-cost students, they reduce their own average costs. They accomplish this not by increasing efficiency, however, but by increasing average costs for public school districts who continue to enroll high-cost students.

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POLICY RECOMMENDATIONS

Our recommendations for school choice policy are aimed at making the emerging market for schooling work more efficiently and effectively.

Parents should be given greater freedom to choose the schools they think best for their children. This does not mean that all parent choices should be publicly financed. Taxpayer funds must be used for public purposes. The policy framework must ensure that parents make informed choices among effective schools. The citizens of Michigan have a common interest in guaranteeing that publicly funded schools are successful, and a Constitutional obligation to protect students against the costs of school failure.

1. **Fair competition requires a level playing field.**

   - PSAs should receive greater financial support for the acquisition of facilities and educational technology.

   - Increased public support would necessarily imply additional public accountability.

2. **Schools that receive public funds are accountable to the public.**

   - Academic accountability can be enhanced through the development of stronger criteria for the issuance and renewal of charters, explicit standards and goals for schooling, and a process for accrediting all public schools.

   - All public schools, including PSAs and the companies they contract with, should be required to meet common accounting standards to increase transparency and allow public oversight of resource allocation.

   - Responsibility for monitoring PSA performance should be clearly assigned to appropriate public agencies that have sufficient capacity to ensure compliance with public policies.

3. **The market for schooling requires information.**

   - The Legislature should act to establish a richer information base on the academic programs and managerial practices of all public schools in Michigan to assist parents and educators with their choices.

   - Creating mechanisms for the dissemination of this information within the Michigan Department of Education and ISDs will inform parental choices, help schools learn from one another, and support the adoption of best practices.

4. **Policy incentives should be aligned with public purposes.**

   - The Legislature should act to ensure that families are choosing schools, rather than schools choosing students.

   - Michigan should establish a uniform process for enrollment at PSAs across the state. This would limit opportunities for schools to enroll or exclude students on the basis of cost or other student characteristics.

   - The state should adjust the school funding formula to provide a stronger incentive for educators to develop services for all students, not just those who are easiest or cheapest to educate.

5. **Schooling for all children is a public responsibility.**

   - The Legislature should explicitly assign responsibility for "turning around" failing schools, and educating students in the event that a district fails. Options to consider include technical assistance to districts and schools at risk, district takeovers, or consolidation of districts.

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1

SCHOOL CHOICE COMES TO MICHIGAN

In company with other American states and nations around the world, Michigan is moving to expand parents' opportunities to choose the schools their children attend. Policies that introduce so-called "school choice"[1] are among the most significant and controversial educational reforms undertaken at the millenium's turn.

The new policies in Michigan create options for parents to send their children to schools beyond their immediate neighborhood and to new or converted schools that are "chartered" by agents of the state.[2] The new policies seek to decentralize control over education by allowing individual parents and local communities to have a greater say in their schools. The new policies also promise to introduce the advantages of market-based competition into the public school system. If schools must compete with one another for students and dollars, they are likely to be more attentive to what parents want. Schools that lose students and dollars will receive sharp signals that they must improve to stay in business. School choice policies also expand opportunities for entrepreneurs, including private companies, to provide educational services. Education, the thinking goes, can only benefit if talented, energetic individuals create new schools, programs, and services in response to what parents and communities want.

This report is based on research in progress on the impact of new choice policies on Michigan's educational system. The research was funded by grants from the U.S. Department of Education, the Spencer Foundation, and the state-supported Michigan Applied Public Policy Research Program at Michigan State University. Conclusions in this report are the authors' and should not be attributed to any of the funding sources. We wish to acknowledge the contributions to this research made by a number of graduate students, including Ann Allen, Bradley Carl, Cynthia Carver, Carol Johnson, Magane Koshimura, Lisa Morgan, Brenda Neuman, Sharman Oliver, Heather Pleasants, Lisa Ray, Christopher Reimann, and Ebony Roberts. Michael Rodriguez provided indispensable assistance in assembling and managing our quantitative databases and digital maps. We benefited greatly from the comments of Margaret Levenstein. We also wish to thank Karen Clark of the Institute for Public Policy and Social Research at Michigan State University, who assisted us with our surveys, and the staff of Learning Designs, Inc., who managed the editing and production of the report.

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These attractive ideas are in keeping with trends in American society today, as policymakers seek to use markets to provide a range of services. Such developments reflect Americans' suspicion of the remote, impersonal, bureaucratic institutions of big government. Such developments also reflect American beliefs in competitive markets as a great motivating force, and in the freedom that choice provides to individuals.

Within the school choice debate, these developments also are justified on the basis of another American value—fairness. Most citizens would agree that all families should have access to excellent education; yet many poor families are unable to choose better schools for their children because they cannot afford to purchase homes in the communities where these schools are usually located.

We do not know yet whether the new choice policies will produce the intended improvements, however. Will choice policies stimulate general improvements in all or many public schools as a result of competitive pressures? Will new school providers develop innovative approaches, leading to the spread of "best practices?" Will poor families gain access to an expanded array of high quality schools? Who will select different schools in response to choice? What will become of the families and students that do not make active choices? What will become of schools that fail under market conditions? These fateful questions must be addressed in evaluating the overall success of school choice policies.

Other important questions arise as well. Will school choice policies create further separation of students by race and class? Will the ideals of citizenship for democratic participation be supported by schools that give free expression to particular rather than common values? To community ties that divide rather than unite? Will school choice undermine confidence in public institutions? Can private interests be harnessed to the goals of public education?

We believe that most citizens concerned about the future of education in our society recognize both the advantages and the perils of the move toward choice. At the same time, people of good will may come to opposing conclusions based on disagreements of fact and value. This report seeks to raise, if not settle, questions such as these at a critical time in Michigan's history. To date, as we will show, school choice policies have had relatively modest effects on education in Michigan because the new policies have not yet appeared in many districts and communities. In those communities that have been affected, a mix of positive and negative consequences has emerged, which makes any simple assessment suspect. In light of the record so far—and of the partial evidence available on many important questions—should school choice be expanded, restricted, or revised in some fashion? This is the debate we hope to inform.

The Rules Matter

To preview our conclusions, we believe school choice policies hold the potential to improve the performance of the educational system that their advocates claim, and so should be expanded carefully.[3] At the same time, the available evidence also reveals significant dangers in the heedless, unrestricted expansion of choice, markets, competition, and privatized service delivery. In short, the rules matter. We therefore advocate a stronger role for state and local government in shaping the evolution of school choice policy. In light of the mixed evidence on success to date, the most prudent approach is to construct school choice policies that reap the advantages of markets and competition, while avoiding or minimizing the dangers.

This report is based on research in progress by the senior authors. The Appendix contains details about this research for the reader interested in the nature of the evidence and the methods used.

MICHIGAN'S CURRENT EDUCATION SYSTEM

Parents have always had a lot of choices in Michigan's education system. Choice already exists at the school, district, and inter-district levels. Recent policy changes in Michigan have expanded available choices, rather than freeing parents from a situation in which they had no choice.

For example, parents have always been able to change their residence to gain access to public schools in a different district. They can send their children to private or religious schools at their own cost or educate their children at home.

Parents and children also can take advantage of a range of choices within their local school system. At the district level, parents can often choose among different kinds of schools. Options might include alternative schools, vocational-technical schools, and regular public schools. In large districts, options such as magnet schools may also be available. Within schools, students can often choose alternative tracks, special programs, course sequences (e.g., Honors or Advanced Placement classes), and other intra-school options.

Michigan has recently added two more choices to the above set of options. Students may now attend one of the new charter schools. Or, they may transfer to schools outside their district of residence through inter-district choice. In this report, we examine these new options and the effects they have had on Michigan's educational system and students.

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THE SOCIOECONOMIC CONTEXT

The move to expand parents' opportunities to choose the schools their children attend represents a response to two powerful social and economic trends. These trends did not originate with the adoption of school choice policies. Although public policy may restrain or encourage these trends, it is unlikely to reverse them.

Geographic and Social Dispersion of Families

First, there is a growing geographical and social dispersion of the population. Over the last two decades, the distribution of American families by income level has broadened dramatically. These income changes affect the type of homes people live in and the type of schools they seek for their children. People are moving out of center cities and older suburbs to an increasingly diverse variety of suburbs. This results in the further sorting of households by characteristics such as race and class.

Before the advent of school choice, the price of enrolling a child in a well-funded suburban school was the cost of buying a house in a desirable suburb. With choice, however, families can change the public schools their children attend without changing their residence. School choice policies reduce the cost of mobility. This is especially valuable for poor families who may now be able to send their children to schools in areas where they cannot afford to live.

School choice may also permit or encourage households to sort themselves out more thoroughly. Parents may select schools on the basis of cultural or ethnic affinity rather than instructional quality. The increase in the number of schools oriented toward the affirmation of specific cultures (African-American, Armenian, Native American) suggests that choice facilitates this kind of social separation.

Reliance on Market Forces

The second important trend is an increasing reliance on market forces and the private sector for the accomplishment of public purposes. In part, this trend is the result of disenchantment with public institutions. Citizens are skeptical about the motives and competence of public officials, calling for alternative ways to accomplish goals previously pursued by public sector bureaucracies. In this search, policy makers have increasingly turned to policies that utilize market mechanisms. These policies often feature:

- Decentralization of administrative responsibility
- Use of private contracting for public services
- Elimination or "streamlining" of regulations
- Reliance on incentives rather than mandates
- Introduction of competitive pressures in the delivery of public services

School choice policies can incorporate each of these mechanisms. By making the governance and funding of schools more competitive and less bureaucratic, policy makers hope to spur improved performance in the education system. It is important to recognize, however, that reliance on market mechanisms may have both negative and positive consequences. The agencies of state government have an obligation to structure the market for schooling in ways that maximize the gains from school choice policies.

THE CURRENT POLICY DEBATE

The debate over school choice policies is especially intense because it summons up conflicts in public values. Advocates of school choice see the opportunity to choose as an element of personal freedom. They encourage policies that expand individual liberty and protect citizens against the power of public institutions. Critics of school choice defend the traditional public school system as essential for the development of free and equal citizens. To them, school choice policies widen the inequalities in society. They reduce opportunities for interactions across lines of race, class, and religion that are essential to democratic citizenship. To the extent that supporters and opponents of school choice are driven by disagreements in values, they are unlikely to be persuaded by evidence about the good and bad effects of choice.

Supporters and opponents of school choice policies also rely on ideological arguments. Because such policies are new and limited in scope, there is little evidence available to assess the ways in which choice affects the education system. To date, therefore, the debate hinges on competing predictions about the effects that choice might have in the future, or selected anecdotes that may not be representative. This situation is beginning to change as more comprehensive data regarding the observable effects of choice become available. Nevertheless, it is still too early to provide definitive answers to some of the key policy questions. Research will have an important role to play in the policy debate, by illuminating the effects of choice policy and by assessing the likely effects of policy change.

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Advocates of Choice

Advocates of choice policies often use popular notions of how markets work when they explain how to cause change in the education system. They point to improved quality and efficiency in industries driven by competition and global markets. They ask why parents should not be allowed to make choices among schools as they make choices among other goods and services. They argue that the main obstacle to improvement in public education is the entrenched monopoly power of the "education establishment." This establishment includes teachers' unions and administrators at district, state, and federal levels. Supporters of choice believe that the only way to overcome bureaucratic resistance to improvement in the public schools is to subject the education system to competition. Parents should be allowed to "vote with their feet" and select the schools that best serve their children's needs.

Supporters of choice believe that the only way to overcome bureaucratic resistance to improvement in the public schools is to subject the education system to competition. Parents should be allowed to "vote with their feet" and select the schools that best serve their children's needs.

In the view of choice supporters, competition would lead to at least two desirable outcomes:

- Choice would increase efficiency and improve performance in public schools. Schools would be forced to respond to the desires and demands of parents. This would result in better use of available resources and more models of educational innovation and "best practice."

- Choice would increase opportunities for students who are now worst served by the public schools. Students who are "trapped" in large urban school systems would enjoy educational opportunities now available only to more prosperous citizens.

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Opponents of Choice

Opponents of school choice respond with a number of different arguments. In their view:

- Most public schools have never performed better than at present. While adjusting to the demands of educating a more diverse student body, schools are offering much more demanding curricula and overall student performance is much improved. The real problems are found in a subset of public schools in which poor children are concentrated. Family and community poverty, not school quality, is the real issue affecting children's futures.

- Choice will harm children who are poorly served under the present system by diverting resources from their schools. As their better-off peers leave for choice options, most poor children will be increasingly isolated in failing schools.

- Choice will not bring about changes in instructional quality but rather changes in who goes to school with whom. Opponents fear that parents will select schools on the basis of race, social class, religion, or ethnic identity, undermining the ideal of common schooling and threatening the foundations of American democracy.

Opponents fear that parents will select schools on the basis of race, social class, religion, or ethnic identity, undermining the ideal of common schooling and threatening the foundations of American democracy.

PROPOSAL A AND THE EMERGING MARKET FOR SCHOOLING

In Michigan, the move to a policy framework that expanded school choice began in 1994 with the approval of Proposal A. Proposal A radically changed the basis of school funding. Before 1994, school districts raised most of their operating revenue from local property taxes. The amount of revenue raised by each district depended primarily on local property wealth and the local millage rate. It was **not** primarily dependent on the number of pupils enrolled in the district. Most operating revenue was local revenue. It "belonged" to the local school district.

Since 1994, most local school districts have received virtually all of their operating revenue from state appropriations. The amount of revenue each district receives depends primarily on the number of pupils enrolled.[4] The per pupil grant from the state effectively "belongs" to the student. When students enroll in a district, they bring their state appropriation with them. When students leave a district, the district's revenues are reduced.

Proposal A opened the way for school choice in Michigan, because the revenues associated with students no longer "belong" to the district in which they live. In theory, the revenues can be taken to any public school in the state. Since 1994, the Michigan Legislature has adopted policies that also allow students to take their state appropriation to charter schools and to schools in neighboring school districts. Current policy debates focus on the question of whether and how to expand these choices.

Both charter schools and inter-district choices expand parents' opportunities to select their children's schools. They work very differently, however. Different students choose schools under the two policies, and different school districts are affected.

Charter Schools

Charter schools are publicly funded schools that operate independently under charters granted by a variety of public agencies. These agencies include local school districts, Intermediate School District (ISDs), community colleges, and public universities. To date, public universities have granted 90 percent of Michigan's charters. Charter schools may be located anywhere in the state, and they may enroll pupils from any school district. Their funding comes directly from the state. The amount they receive depends on the number of pupils they enroll.

Depending on the districts in which they are located, charter schools receive approximately $5,500 - $6,000 for each student they enroll.[5] The chartering agent may take up to 3 percent of the school's allocation as a management fee. Charter schools also may contract with private, for-profit educational management organizations (EMOs) that charge an additional fee for services they provide.

Charter schools must adhere to many (but not all) of the rules and regulations governing other public schools. They must employ certified teachers, and their students must take the state-mandated Michigan Education Assessment Program (MEAP) tests. As public schools, they must enroll all students who seek admission and for whom they have space. If there is insufficient space to enroll all student applicants, charter schools must use a fair lottery to make enrollment decisions. Chartering agencies are responsible for appointing charter school boards and for ensuring compliance with state policies. At present, the number of charters that can be granted in Michigan is capped. No single university can grant more than half of the total number of charters.

Inter-district Choice

Inter-district choice opens enrollment options that are within the existing public school system but outside the student's district of residence. At present, students may enroll in any public school within their local ISD or in contiguous school districts outside their ISD that announces openings. School districts may decide whether or not to open themselves to non-resident students. They may not prevent students who reside in the district from attending school in another district.

Districts that choose to accept non-resident students must publicly announce openings each year. They may designate available places by school and by grade. Once openings are announced, districts must accept all students who apply. If there are more applicants than openings, districts (like PSAs) must use a fair lottery to make enrollment decisions. Students who enroll in a district where they do not reside bring their full per pupil subsidy with them, unless they move to a district with a lower per pupil subsidy. In this case, students bring an amount equivalent to the per pupil subsidy in the district to which they move. School districts within an ISD may develop their own inter-district plans that operate in place of the state's policy.

DIFFERENT RULES PRODUCE DIFFERENT OUTCOMES

In contrast to the arguments put forth by both advocates and opponents, the educational and social consequences of expanded school choice are not predetermined. They cannot be predicted in the abstract. The consequences of school choice policies turn decisively on the specific features of a state's school choice legislation and on the implementation of choice policies by government agencies. The "rules of the game" matter. Different rules create different incentives. Different rules produce different outcomes.

The administrative and regulatory system that is established to monitor the implementation of choice policies is similarly important. Who is responsible for interpreting the rules and ensuring that they are followed? Do those charged with monitoring the operation of school choice have the incentive and organizational capacity to carry out their responsibilities? How will those who violate the rules be discovered? What sanctions are in place to govern their behavior?

The "rules of the game" matter. Different rules create different incentives. Different rules produce different outcomes.

The key question for policy makers is not whether one is "for" or "against" choice. The key policy questions have to do with the specific rules and administrative arrangements that govern the operation of choice policies.

Differences in state charter school legislation have produced very different kinds of schools in different states. In Michigan, most charter schools are elementary schools located in urban school districts. They enroll a higher share of poor and minority students than do neighboring school districts. In California, most charter schools are high schools located in suburbs or small towns.[6] They enroll a smaller share of poor and minority students than do neighboring school districts. These differences are in part a result of the differences in the rules that govern charter schools in the two states.

In California, most charter schools receive their charters from school districts. Teachers retain membership in the local bargaining unit of the teachers' union. Per pupil payments are negotiated between the district and the charter school. Home schooling networks (like the ill-fated Noah Webster Academy in Michigan) are allowed under California's legislation. This permits school districts to "enroll" home-schooled students in charter schools and collect state aid for them. Charter schools may select their students, and they may require parents to sign contracts committing time and resources to the school. These regulations create a situation in which charter schools are highly attractive to white and middle class parents who want to leave the traditional public school system and are willing to pay a price to do so.

Under California's regulations, charter schools do not ordinarily compete with public school districts. Instead, they complement services available in traditional public schools.

In Michigan, state universities charter most PSAs. Only a handful receive their charters from school districts or ISDs. Fixed per pupil payments are received directly from the state. These payments are generally equivalent to the payments received by public schools in the "host" district. Except for a few in schools chartered by public school districts and ISDs, none of the teachers in Michigan's charter schools are union members.[7] Home schooling networks are not allowed. Charter schools cannot select students by any means other than a fair lottery, and they are barred from requiring parents to sign contracts as a condition of admission. Under Michigan's regulations, PSAs compete directly with neighboring school districts. Most charter schools have located in urban areas, where the challenges faced by public schools provide opportunities for competition. As a result, they enroll a high percentage of poor and minority students.

The differences between charter schools in California and Michigan illustrate the importance of the rules that define school choice policies. They also point out the importance of administrative arrangements that govern their implementation. Some of the key areas in which the rules matter include:

- Procedures for student selection and admissions
- Parents' access to information
- Teacher certification
- Curriculum and assessment
- Criteria for granting or refusing charters
- Restrictions on the location of charter schools
- Duration of charters
- Criteria for review and revocation of charters
- Charter school governance structure
- Funding level, and access to start-up and capital funding

In each of these areas, decisions about rules and how they are implemented have profound consequences for the nature of educational opportunities that emerge with choice. They also affect the impact of these new alternatives on the larger educational system.

Consider a single example. Rules that allow charter schools (or school districts) to select the students they wish to enroll are likely to support the emergence of a prestige hierarchy among schools. Selective charter schools will enjoy an advantage over inclusive public schools. Talented students will be attracted to selective schools, and less desirable students will be left behind. This trend has been observed in California and other states that allow charter schools to select students. In Michigan and other states that do not allow charter schools to select students, this trend has been slower to emerge.

The effects of school choice policies thus depend on the specific mix of legislation and regulation that is adopted. Rules governing school choice in Michigan could be strengthened to make the market for schooling work better. Monitoring and oversight by chartering agencies could be improved to ensure that school choice policies accomplish the purposes for which they were intended.

In the remainder of this report, we argue that Michigan policy makers are now faced with an important opportunity. Their actions can expand or modify school choice policies in ways that support the positive effects of choice while limiting or ameliorating the negative consequences.

THE PURPOSE OF THIS REPORT

With this report, we seek to shift the terms of the policy debate over school choice. We see little value in arguing whether one is "for" or "against" choice. Instead, we hope to address the more useful question of how to design school choice policies that:

- expand parents' opportunities to choose the schools they want for their children, and
- protect and advance the interests of students, taxpayers, and communities.

We argue that parents should have a wide variety of school and program options. We believe that Michigan should adopt policies that give parents more choices. At the same time, we argue that the market by itself will not - and cannot - accomplish the crucial public purposes embodied in our public school system. The consequences of school choice policies depend on the rules that govern the education system. Good rules can help to bring about good outcomes and protect against damage caused by poorly designed policies. The debate on school choice should focus on the design of rules and administrative mechanisms that ensure effectiveness and accountability for all publicly funded schools.

2

THE GEOGRAPHY OF SCHOOL CHOICE IN MICHIGAN

To assess the impact of school choice policies, it is important to pay careful attention to the geographical patterns of choice participation. Responses to school choice policies depend on both the specific rules embedded in policy design and the local context in which the policies are implemented. In Michigan, responses to the two choice programs differ in interesting and important ways. In both cases, participation rates show striking patterns associated with local community characteristics.

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STATEWIDE GROWTH IN SCHOOL CHOICE

Public School Academies

Michigan's charter school community has expanded at a rapid rate. Only Arizona and California now have more charter schools than Michigan. In comparison to many other states, Michigan's charter school policy and its implementation have been relatively favorable for the growth of charter schools.

Table 1 displays trends in the number of charter schools and their enrollment. Although a handful of charter schools opened the previous year, 1995-96 marked the first full year of PSA operation in Michigan. Forty-three schools were in operation that year, serving roughly 5,550 students. By 1998-99, there were 138 PSAs with approximately 34,000 students. These figures reveal very high growth rates. Over this initial three-year interval, PSAs grew at an annual rate of nearly 50 percent. The growth rate of total PSA enrollment was even higher, a sizzling 84.1 percent. The faster growth of enrollment than schools is due mainly to established PSAs admitting additional students over time. For 1999-2000, projections are that there may be 180 PSAs in operation. These schools will serve upwards of 50,000 students.

Despite their rapid growth, Michigan's PSAs still educate a small portion of the state's K-12 students. Although the share is growing, only about 2 percent of Michigan's public school children attended PSAs in 1998-99.

Only Arizona and California now have more charter schools than Michigan... but only about 2 percent of Michigan's public school children attended PSAs in 1998-99.

TABLE 1

Number of Charter Schools and Pupils in Michigan, 1995-99

School Year	Number of Schools	Number of Students	Percentage of All Michigan K-12 Students	Estimated State Spending (000)
1995-96	43	5,500	0.3	$ 31,100
1996-97	79	12,047	0.8	72,600
1997-98	105	20,477	1.3	119,500
1998-99	138	34,319	2.2	209,300

Inter-district Choice

Student participation in inter-district choice is also growing, but not as rapidly as PSA enrollment. Table 2 shows that 7,836 students participated in inter-district choice in 1996-97. This represents about 0.4 percent of the state's K-12 public school enrollment. In 1997-98, this number increased to 10,867 students, 0.7 percent of Michigan's K-12 enrollment. Student participation in inter-district choice was about two-thirds the level of PSA enrollment in 1996-97. By 1998-99, the number of students involved in inter-district choice was less than half the number attending PSAs.

Inter-district choice depends on local school districts opening enrollment to non-resident students. The share of participating districts increased from 36.8 percent in 1996-97 to 45.2 percent in 1997-98 during the program's first two years. Most districts still do not admit non-resident students, however.

TABLE 2

Aggregate Participation in Michigan's Inter-district Choice Program

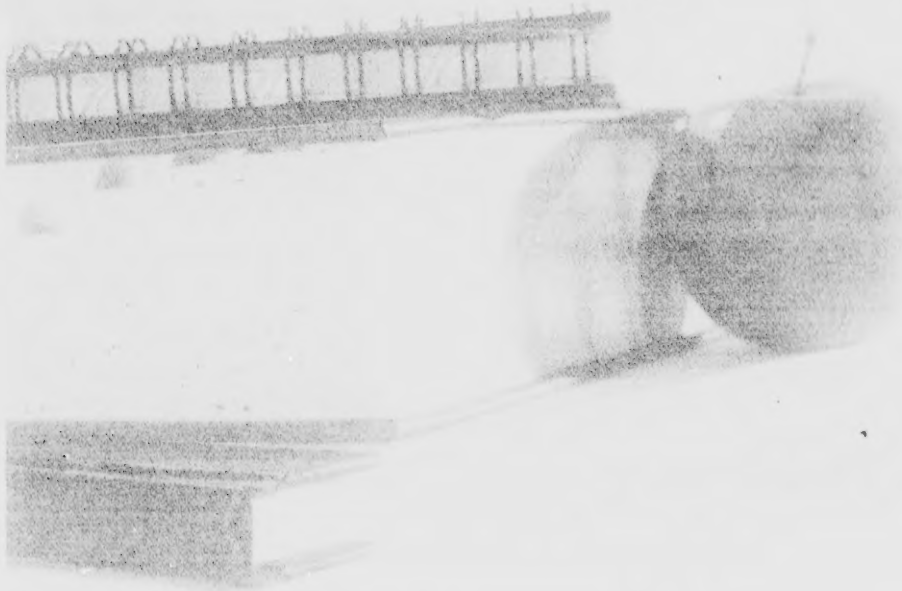
	1996-97	1997-98	1998-99
Number of inter-district choice students	7,836	10,867	14,723
Percentage of state K-12 enrollment	0.5	0.7	0.9
Percentage of districts accepting nonresident students	36.8	45.2	45.2
Percentage of transactions involving less than 5 students	65.3	60.2	54.6
Percentage of transactions involving more than 20 students	6.2	9.2	11.9

Note: A 'transaction' is the transfer of students from one district to another through interdistrict choice.

Table 2 also shows that the number of students moving from any given district to another is relatively small in most cases. However, instances of fairly substantial student flows are increasing. To measure student flow, we define a "transaction" as any instance in which a student or group of students moves from their home district x to another district y. For example, suppose that 10 students leave a given district. One student transfers to district y_1, three students transfer to district y_2, and six students move to district y_3. This would count as three transactions.

THE RULES MATTER

There were 808 transactions in 1996-97. Two-thirds of them involved fewer than five students. Only 6 percent involved more than 20 students. By 1998-99, there were 1,179 transactions. Just over half of them involved fewer than five students. Nearly 12 percent involved more than 20 students. Some transactions involve hundreds of students and millions of dollars in state aid moving from one district to another.



WHERE DO PSAs LOCATE?

To evaluate the impact of PSAs on Michigan's educational system, we need to see where the schools have been established. Although PSAs operate in most regions of the state, their placement is far from random. We observe systematic patterns in the location of PSAs in terms of the social, economic, and educational characteristics of local school districts.

In our analysis, we stratify Michigan's 555 traditional public school districts by a variety of characteristics. We then look for correlations across districts between these characteristics and PSA participation. This analysis is based on district characteristics, **not** the characteristics of the PSAs or their students. This is an important point. Although it is possible to identify the "host" districts for PSAs, students sometimes attend PSAs that are located outside their home district. To answer some questions, we need to know where PSA students live. The Michigan Department of Education (MDE) does not currently collect this information.

We use "location quotients" to show patterns in the relative density of PSA participation across local districts. The location quotient (LQ) is the ratio of two percentages:

$$LQ = \frac{\text{PSA enrollment as a \% of host district enrollment for some subset of school districts}}{\text{Statewide PSA enrollment as a \% of statewide K-12 enrollment}}$$

For example, a location quotient of 1.0 means that the rate of PSA school participation for a subset of districts is equivalent to the rate for the state as a whole. A location quotient of 2.0 means that PSA participation is twice the statewide rate. A location quotient of 0.5 indicates that PSA participation is half the statewide rate.

Community Type: Urban, Suburban, Rural

Table 3 separates the state's school districts by community type. The "high-income" category includes school districts in which the median value of owner-occupied homes was greater than $95,000 in the 1990 U.S. Census. There were 28 school districts in this group. Median home value is highly associated with median family income. We used home value as the classifying variable, because it essentially represents the "price of admission" to the public schools in a local district. All but one of these high-income school districts were located in suburban areas.

We used the U.S. Census Bureau's definition of Metropolitan Statistical Areas (MSAs) to distinguish rural from metropolitan areas. The "other suburban" category includes all school districts located in an MSA, except central cities and high-income suburbs. The "rural" classification includes all school districts located outside an MSA.

TABLE 3
Charter School Location by Community Type, 1997-98

Community Type	Number of School Districts	Number of Charter Schools	% of Districts with at Least One Charter School	Charter School Enrollment as % of Host District Enrollment	Location Quotient
Central city	23	43	52	2.7	2.11
High-income	28	5	11	0.5	0.39
Other suburban	295	41	10	1.0	0.78
Rural	209	16	7	0.8	0.62
Total	555	105	11	1.3	1.00

...children in the state's central cities attend PSAs at more than twice the statewide rate. ...PSAs are much more likely to locate in districts with low MEAP scores than in districts with high scores.

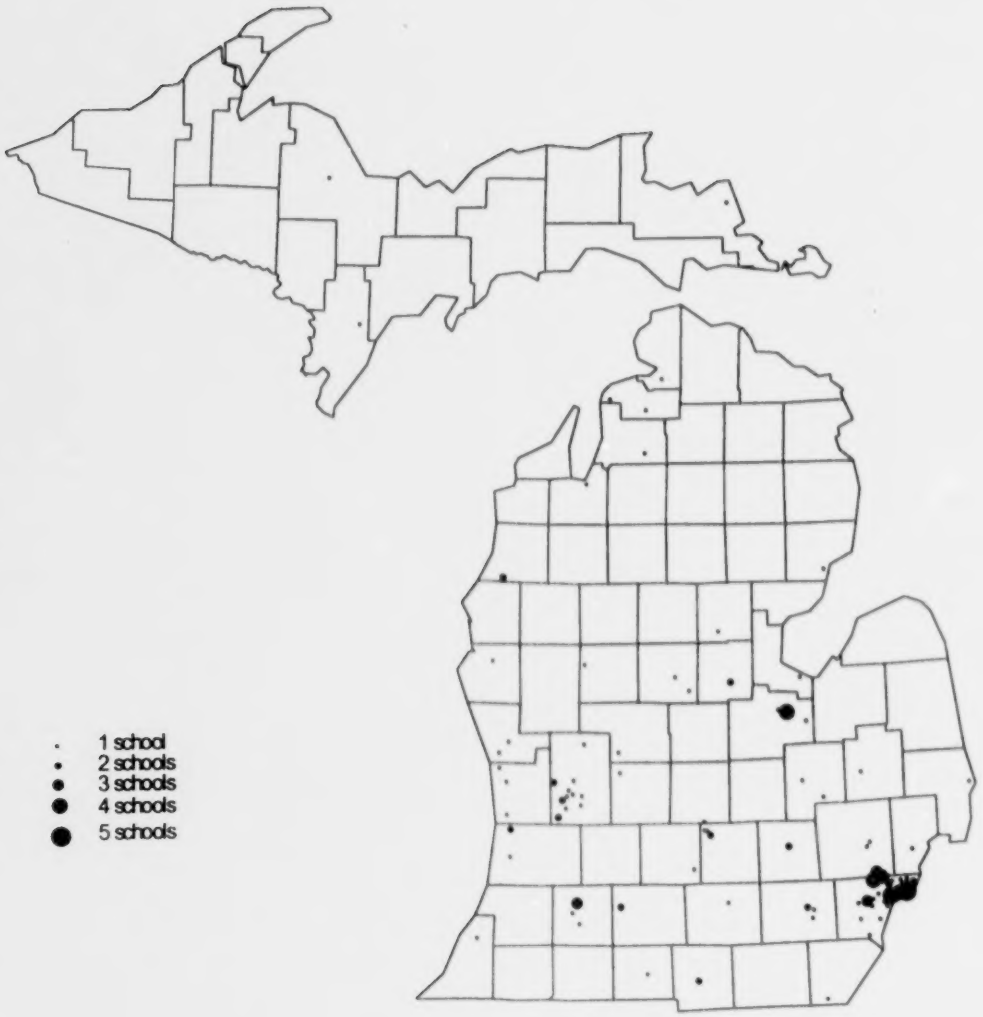
Map 1 shows that most of Michigan's PSAs (approximately 85 percent) are located in metropolitan areas.[8] Half of the PSAs in metropolitan areas are located in central city districts. The other half are located in suburban school districts. However, central cities host a disproportionate share of Michigan's PSAs in comparison to their share of the state's school districts or student enrollment. Charter schools are located in more than half of Michigan's central city school districts. Fewer than 10 percent of the state's remaining 532 districts host charter schools.

The location quotients indicate that children in the state's central cities attend PSAs at more than twice the statewide rate. This is probably a low estimate. Table 3 shows that central city PSA enrollment is equivalent to about 3 percent of district enrollment. Our interview data, however, indicate that PSAs in adjacent suburban districts enroll many students who live in central city districts. So, the total percentage of children who live in central cities and attend PSAs is undoubtedly higher than 3 percent.

The rate of PSA enrollment in suburban and rural districts is much lower. In fact, the rate of PSA enrollment is five times higher in central city districts than in high-income suburban districts. The range and quality of public schools in high-income communities pose a formidable competitive obstacle for PSAs. The relatively low rate of PSA participation in rural districts may be due to another factor. It is difficult to attract a critical mass of students in areas with low population density.

MAP 1

1998-99 PUBLIC SCHOOL ACADEMY LOCATION



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Maps 2 and 3 show the location of PSAs in metropolitan Detroit and Grand Rapids in 1998-99. These are digital maps on which PSAs have been geo-coded by their zip code. Schools are placed at the center of their zip code area on the maps. Consequently, the maps provide an easy way to identify zip code areas with multiple PSAs.

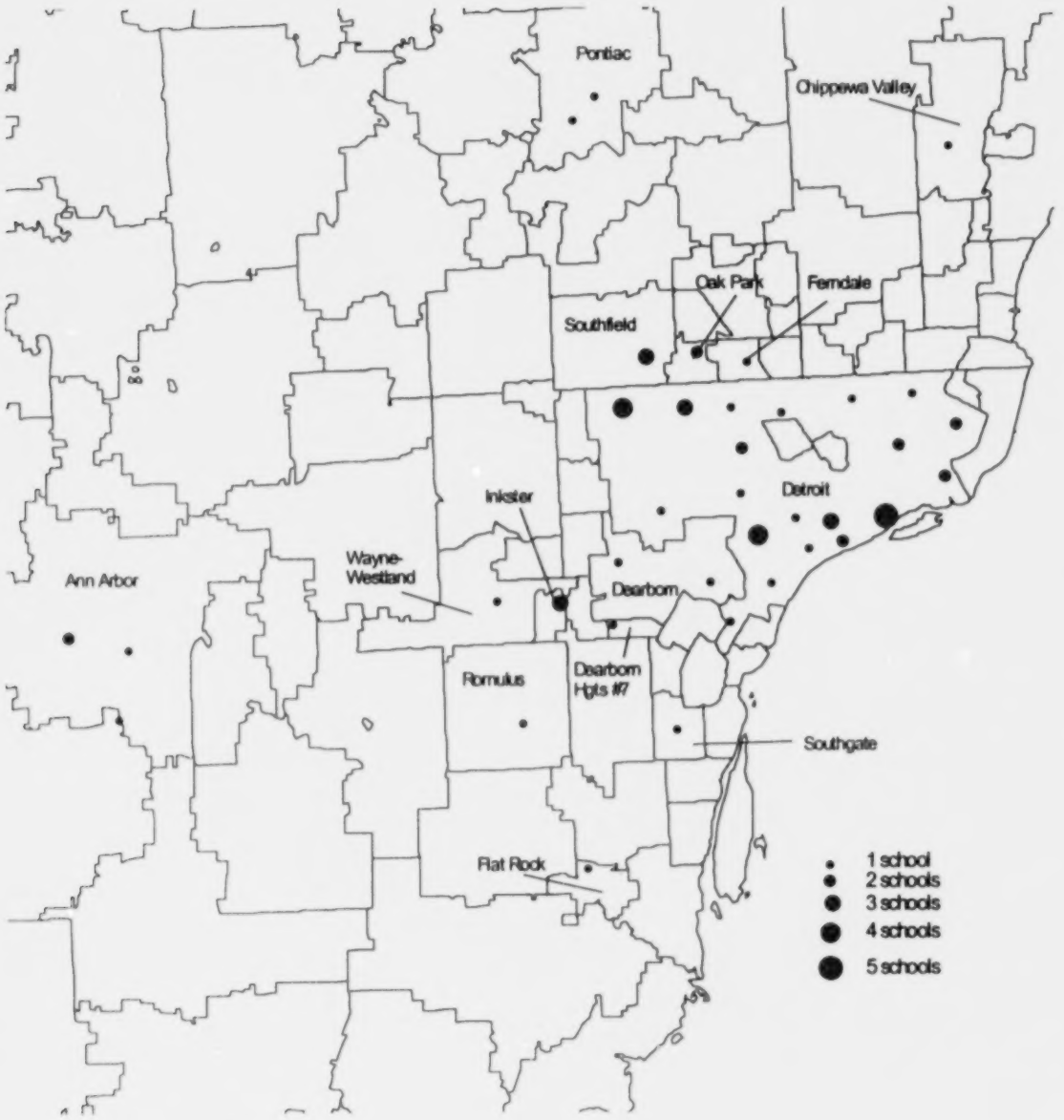
About 43 percent of Michigan's charter schools are located in metropolitan Detroit. Over two-thirds of these schools (37) are located in the city of Detroit. PSAs can be found all across the city. The vast majority of Detroit's residents lives within two miles of a PSA; most live within a mile of a PSA.

A number of PSAs have located in areas close to downtown and in the northwest section of the city. Several suburban Wayne County districts host PSAs. Oakland County's charter schools are located in districts that border Detroit along Eight Mile Road and in Pontiac. In 1998-99, Macomb County had only one PSA, chartered by the Macomb Intermediate School District.

Metropolitan Grand Rapids has fewer PSAs than metro Detroit. When compared to population, though, the density of charter schools is comparable in these two major metropolitan areas. There is one important difference between the two areas. While PSAs have located in the city of Detroit, they are concentrated in the suburban ring of Grand Rapids. The school board in Detroit has chartered some of the PSAs in that city. There are no comparable developments in the city of Grand Rapids. This partially explains the difference in location of PSAs, but other factors also may be operating. Charter school operators in Kent County appear to be interested in luring students out of Grand Rapids. In Wayne County, in contrast, they appear to be interested in locating in Detroit neighborhoods to compete with the regular public schools.

MAP 2

1998-99 PUBLIC SCHOOL ACADEMY LOCATION IN METROPOLITAN DETROIT



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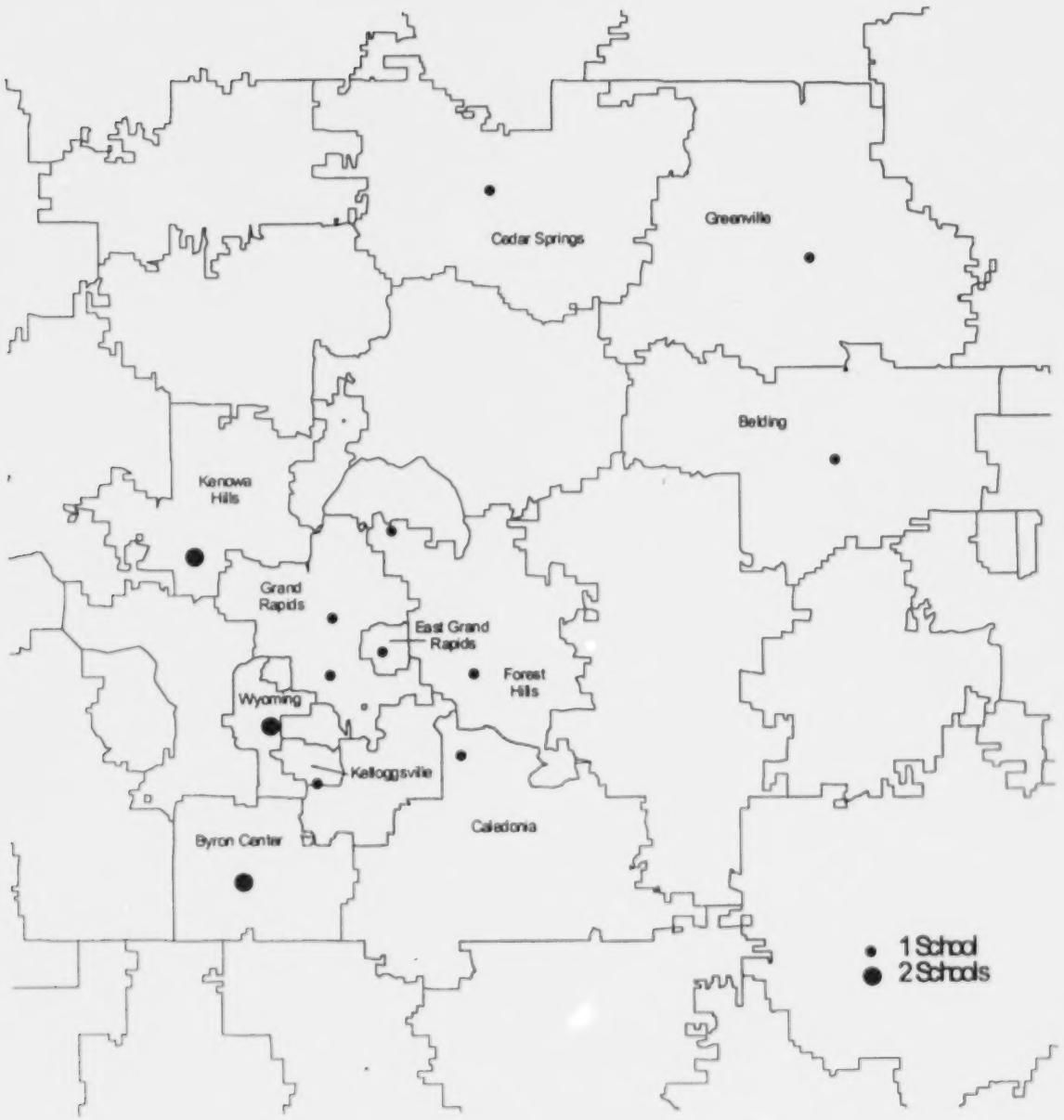
MAP 3

1998-99 PUBLIC SCHOOL ACADEMY LOCATION IN METROPOLITAN GRAND RAPIDS



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THE RULES MATTER

In most parts of Michigan there are no charter schools. There are good reasons for this. As mentioned earlier, charter schools in rural areas face the obstacle of a small and widely dispersed population. This would make it difficult to attract a sufficient number of students, especially if the school did not provide transportation. In several wealthy suburban communities, public school districts receive allocations from the state that are substantially larger than the allocations available to charter schools. Many parents move to these districts to take advantage of the educational opportunities available there. Most of them are satisfied with the quality of education in local public schools. Under these circumstances, it is difficult for a charter school to compete.

Charter schools have had their greatest impact in Michigan's main metropolitan areas for three reasons:

- The student population is sufficiently large to support additional schools, even if transportation is not provided.
- Parental preferences are diverse enough to allow charter operators to tap "niche markets" and open schools that respond to the preferences of specific groups of parents.
- A sufficient number of parents in urban areas are dissatisfied with the performance of local public schools to support charter schools and other alternatives.

Racial Composition

The geography of Michigan's PSA participation is highly correlated with school district racial composition. Table 4 shows the relationship between PSA location and the share of a community's students who are African-American. Michigan's school districts were stratified into four groups defined by their percentage of African-American students. African-American students represent less than 1 percent of the enrollment in nearly two-thirds of Michigan's school districts. In only 28 districts (about 5 percent) do African-American children represent more than 33 percent of total enrollment. PSAs are disproportionately located in these 28 districts. Nearly half of the state's PSAs are located in districts where more than a third of the students are African-American. The rate of PSA enrollment in these districts is five times the PSA enrollment rate in districts where less than 1 percent of the student body is African-American.

It is important to note that these data pertain to the racial composition of school districts, not to PSAs. The data allow us to evaluate how PSA location corresponds to district racial composition, but they do not permit inferences about the racial composition of PSA students.[9] In principle, students in PSAs located in districts with high concentrations of African-American students could be predominantly white.

TABLE 4

Charter School Location by Host District Racial Composition, 1997-98

Percent African-American Enrollment	Number of School Districts	Number of Charter Schools	Charter School Enrollment as % of Host District Enrollment	Location Quotient
< 1.0 %	347	25	0.7	0.51
1 to 5 %	127	19	0.6	0.48
5 to 33 %	51	14	1.4	1.12
> 33 %	28	47	3.2	2.48
Total	553	105	1.3	1.00

MEAP Scores

Most arguments in support of school choice revolve around educational considerations. In fact, the location of Michigan's PSAs is related to one measure of educational outcomes. Table 5 shows the relationship between PSA location and school district MEAP scores. For the purposes of this study, districts were stratified by the percentage of students who obtained a "satisfactory" score on the 7th grade math test.[10]

There is a systematic negative correlation between PSA enrollment rates and MEAP scores. PSAs are much more likely to locate in districts with low test scores than in districts with high scores. In districts where less than 40 percent of the students obtained satisfactory scores, the PSA location quotient is four times higher than in districts where more than 80 percent of the students obtained satisfactory scores.

TABLE 5

Charter School Location by Host District MEAP Test Performance, 1997-98

% Satisfactory 7th Grade Math MEAP	Number of School Districts	Number of Charter Schools	Charter School Enrollment as % of Host District Enrollment	Location Quotient
0 to 40%	39	36	2.5	1.98
40 to 60%	167	20	1.1	0.84
60 to 80%	269	42	1.0	0.81
80 to 100%	65	7	0.6	0.44
Total	540	105	1.3	1.00

PATTERNS OF PARTICIPATION IN INTER-DISTRICT CHOICE

Our analysis of inter-district choice participation is divided into two parts. The first part addresses patterns in the decisions of school districts to accept non-resident students. How are these decisions related to school district characteristics? This is strictly a 'supply-side' phenomenon. In the second part, we examine actual student flows. How are the volume and direction of student mobility related to school district characteristics? Student flows necessarily involve the decision of districts to make openings available (supply) and students' decisions to accept those openings (demand). The resulting pattern of student mobility produces interesting shifts in the distribution of resources across local districts.

Which School Districts Participate In Inter-district Choice?

In 1997-98, slightly less than half of all Michigan school districts participated in inter-district choice. Map 4 shows the expansion of participating districts from the first to the second year of the program. It also indicates districts that discontinued their participation in the second year. Participating districts are found in all regions of the state.

MAP 4

DISTRICT PARTICIPATION IN CHOICE, 1996-98

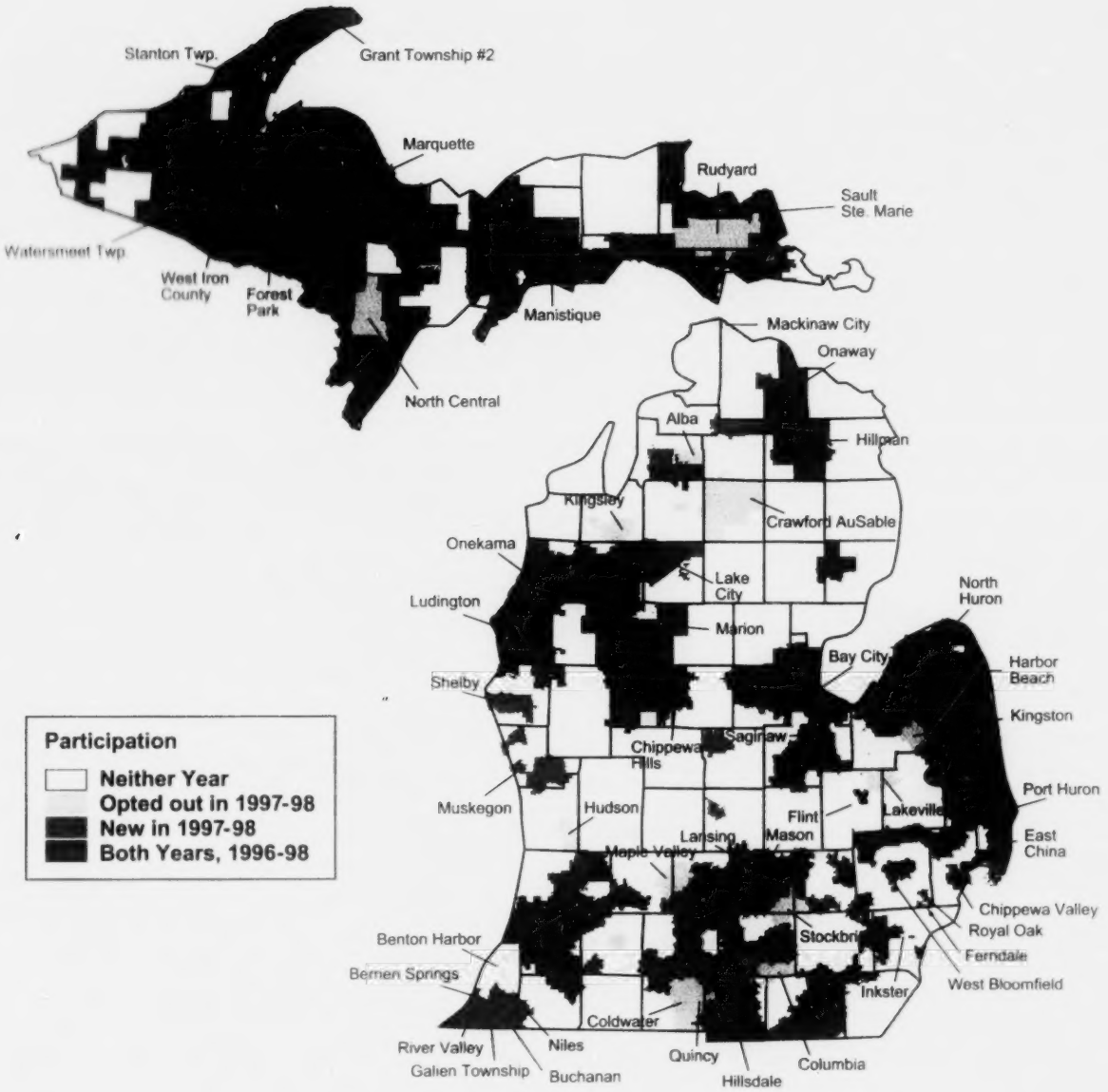

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Table 6 displays the participation rates of Michigan's school districts stratified by several district characteristics. District participation rates are systematically related to several of these characteristics. In general, however, variation across district groups is far less dramatic than cross-district variation in PSA participation.

Rural school districts are more likely to participate in inter-district choice than metropolitan districts... As district family income and home value rise, the probability of participation in open enrollment declines.

Rural school districts are more likely to participate in inter-district choice than metropolitan districts. In rural areas, proximity to schools and parental convenience are important considerations for transfers. In metropolitan areas, these issues are less relevant. There are also less dramatic inter-district inequalities in socioeconomic status in rural areas than in metropolitan areas. This factor appears to be related to a greater willingness of rural districts to open enrollment to non-resident students.

Within metropolitan areas, central cities are more likely to accept non-resident students than suburban districts. High-income suburban communities are less likely to accept non-resident students than other suburban districts. Indeed, one strong pattern emerges in Table 6. As district family income and home value rise, the probability of participation in open enrollment declines.

Another significant predictor of participation in inter-district choice is district enrollment trends over the last five years. Under Michigan's current school finance system, districts with declining enrollments are likely to feel financial stress. Such districts are more likely to accept non-resident students. This helps them maintain personnel and established programs. By contrast, rapidly growing districts are pressed simply to accommodate resident-student growth. Located primarily in outlying suburban areas, these districts have little or no room for non-resident children.

Finally, the data in Table 6 indicate that there is no correlation between school districts' racial composition or MEAP scores and their decision to participate in inter-district choice. This is very different from PSA participation.

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TABLE 6

School District Participation in Inter-district Choice by District Characteristics

School District Characteristic	Number of Districts	Percent of Districts Participating 1996-97	1997-98
Location/Type			*
Central city	23	34.8	43.5
High-income	28	25.0	32.1
Other Suburban	295	33.9	40.7
Rural	209	42.6	53.6
% African-American Enrollment			
0 to 1%	347	38.6	48.1
1 to 5%	127	30.7	37.0
5 to 33%	51	39.2	49.0
33 to 100%	28	39.3	42.9
% Change Enrollment 1993-98		*	*
< -2%	177	44.6	54.8
-2 to 2%	72	44.4	48.6
2 to 10%	173	31.2	38.7
> 10%	132	29.5	39.4
% Satisfactory 7th Math MEAP			
0 to 40%	39	46.2	53.8
40 to 60%	167	38.9	48.5
60 to 80%	269	35.3	41.3
80 to 100%	65	29.2	47.7
Median Household Income (1989)			*
Less than $20,000	80	41.3	55.8
$20,000 to $34,000	314	39.5	48.7
$34,000 to $46,000	136	31.6	36.0
Greater than $46,000	25	16.0	20.0
Median Home Value (1989)		*	*
Less than $36,000	102	47.1	59.8
$36,000 to $54,000	234	41.0	50.9
$54,000 to $76,000	144	29.9	37.5
Greater than $76,000	74	23.0	23.0
State	555	36.8	45.2

* Group means are significantly different at 99% confidence level.

Inter-district Student Flows by District Characteristics

Consider now actual student flows under the inter-district choice program. These flows reflect the interaction of two factors: districts' decisions to accept non-resident students, and parent/student preferences for schools in districts other than the ones where they live. Table 7 presents information that addresses three questions about inter-district choice participation in Michigan's 555 public school districts:

- What percent of students who live in a district choose to transfer to another district?
- How many students transfer into a district relative to the number of students who live in that district?
- How does the net flow of students in versus students out compare to the number of students living in a district?

Student participation in inter-district choice is highest in rural and central city school districts. It is much lower in suburban districts, and it is lowest of all in high-income suburban districts. On average, the share of students throughout the state who leave rural school districts (2.3 percent) is identical to the share who leave central cities. For the rural districts as a whole, this outflow is matched by an equivalent inflow of students, but some rural districts do have significant net enrollment gains or losses. The inflow of students to central cities, on the other hand, falls considerably short of matching the outflow. Even so, the average net loss to central city districts is only 0.7 percent. In some central city districts, however, the net loss is much higher.

High-income suburban communities are relatively insulated from inter-district choice. Only a very small share of resident students transfers out, and their rates of student inflow are low. These low rates of inflow are a result of their decision to make few spaces available to non-residents, rather than a lack of non-resident demand.

There is a fair amount of student mobility across suburban districts. The primary net flow of students within the state's metropolitan areas is from central cities to middle- and moderate-income suburbs, however. On average, the 295 districts classified as "other suburbs" (that is, other than high-income suburbs) experienced a net enrollment increase of about 2 percent through inter-district choice. The corresponding increase in revenue to these suburban districts, on average, is about the same as the annual per pupil increase in state revenue received by most of these districts in recent years.

TABLE 7

Inter-district Choice Student Flows by District Characteristics, 1997-98

School District Characteristic	Mean Out-Transfers as a % of Resident Students	Mean In-Transfers as a % of Resident Students	Mean Net % Enrollment Change
Location/Type			
Central city	2.3	1.2	-0.7
High-income	0.2	0.4	0.2
Other suburban	0.8	1.7	1.9
Rural	2.3	2.2	-0.1
% African-American Enrollment			
0 to 1%	1.3	1.8	1.1
1 to 5%	1.0	1.2	0.3
5 to 33%	2.3	3.3	4.7
33 to 100%	3.0	1.7	-1.0
% Change Enrollment 1993-98			
< -2%	2.2	1.9	0.0
-2 to 2%	1.0	1.5	0.6
2 to 10%	0.8	0.9	0.1
> 10%	1.4	3.0	3.7
% Satisfactory 7th Math MEAP	*	*	
0 to 40%	3.4	3.2	0.5
40 to 60%	1.3	1.4	0.2
60 to 80%	0.8	1.0	0.3
80 to 100%	1.6	1.5	-0.0
Median Household Income (1989)	*		
Less than $20,000	3.9	4.0	2.9
$20,000 to $34,000	1.2	1.8	1.1
$34,000 to $46,000	0.5	0.9	0.5
Greater than $46,000	0.2	0.4	0.2
Median Home Values (1989)	*	*	
Less than $36,000	3.9	4.0	2.9
$36,000 to $54,000	1.3	1.8	1.1
$54,000 to $76,000	0.5	1.0	0.5
Greater than $76,000	0.2	0.4	0.2

* Group means are significantly different at 99% confidence level.

Inter-district choice appears to be a process of "upward filtering." Students are generally moving to districts that have better educational outcomes and higher socioeconomic status than their home districts.

Table 7 also indicates that students are more likely to leave districts with high concentrations of African-American children. On balance, students flow from districts with high concentrations of African-American students to districts with moderate enrollment of African-American students. The 28 districts with greater than 33 percent African-American enrollment were the only class of districts that experienced net enrollment losses. The largest net enrollment gains were not in districts with the fewest African-American students. They were in districts where 5 to 33 percent of the student population is African-American. The 51 districts in this category experienced a significant average enrollment increase of nearly 5 percent through inter-district choice.

Inter-district choice tends to reinforce patterns of growth and decline in the residential housing market. Communities that experienced long-term enrollment declines before the advent of choice policies suffered further losses through inter-district choice. Communities that grew substantially over the last five years enjoyed the largest inflow of choice students. Choice does not play a significant role in the outlying suburban districts, however, which represent some of Michigan's fastest growing communities (for example, northern Oakland and Macomb, western Wayne, and Livingston counties in southeast Michigan). Most districts in these areas are pressed to provide sufficient classroom space to accommodate resident enrollment growth. They have little room for non-resident children.

Our analysis of student flows has thus far been based on averages for groups of school districts stratified by various district characteristics. An alternative approach is displayed in Table 8, which takes the 11,000 inter-district choice students in 1997-98 as the unit of observation. The table presents information related to several socioeconomic and educational variables. For each choice student, the value of each variable in the student's home district was subtracted from the value of the corresponding variable in the student's educating district. The averages of these differences across the 11,000 movers provide an interesting summary of the social and economic geography of inter-district choice.

Table 8 presents a picture of inter-district choice as a process of "upward filtering." Students are generally moving to districts that have better educational outcomes and higher socioeconomic status than their home districts. Students move to districts with higher MEAP scores and graduation rates. They move to districts in which fewer students are poor and in which family incomes and home values are higher. Students also move to smaller districts.

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TABLE 8

Differences in Characteristics of Educating vs. Resident Districts for Inter-district Choice Students

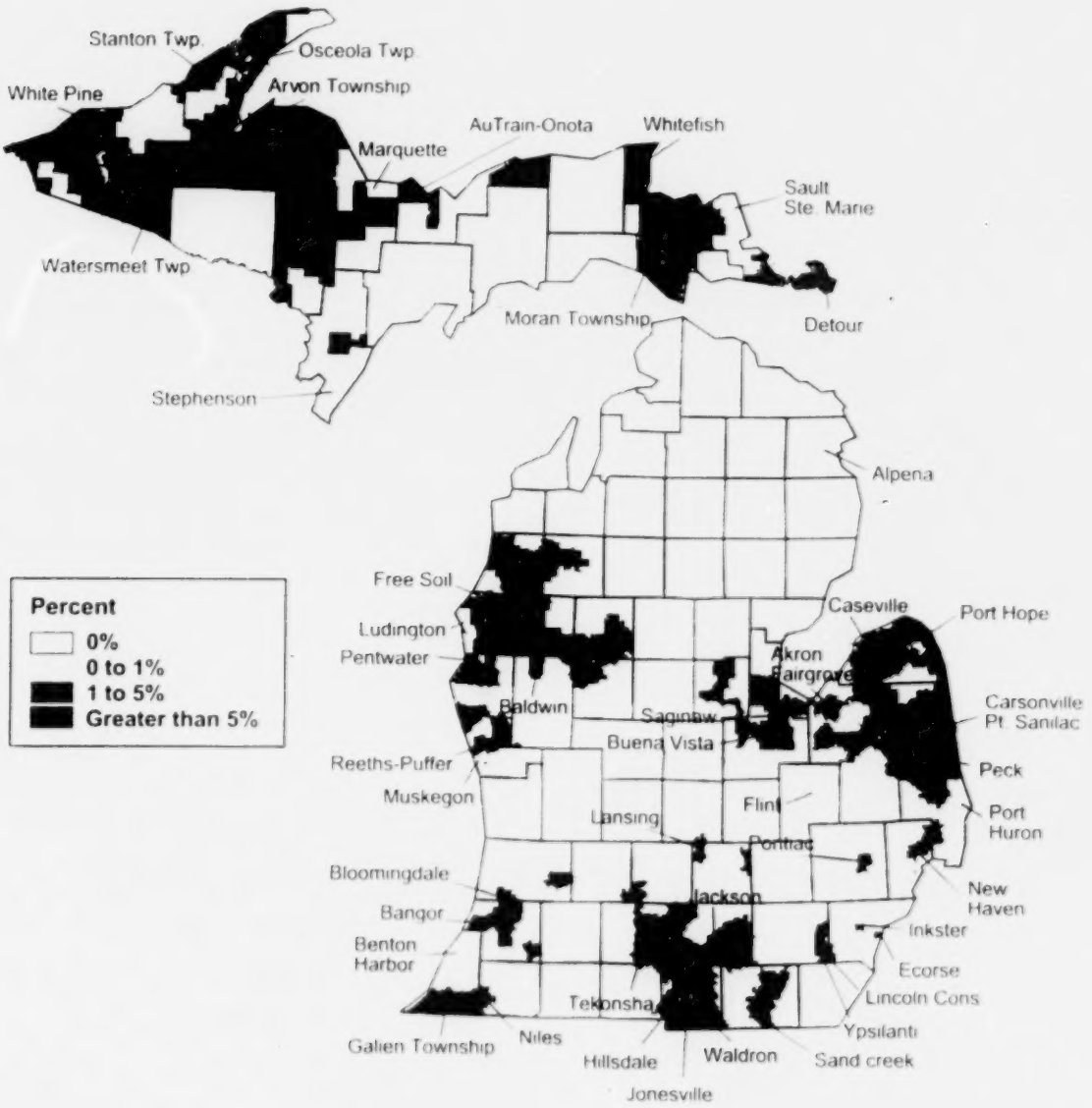
District Characteristic	Educating District Minus Resident District (Mean value of difference for individual student transfers)		
	Statewide	Statewide, Excluding Detroit	Statewide, Excluding District-to-District Transfers Entailing < 20 students
Math 7th % satisfactory	5.1	6.9	7.8
Reading 7th % satisfactory	3.2	5.1	4.5
Graduation rate	9.4	6.6	14.0
Drop-out rate	-3.6	-2.2	-5.4
Pupil-teacher ratio	0.3	-0.1	0.5
Expenditures per pupil	-$314	-$377	-$456
Mean teacher salary	$1,766	$174	$2,704
District enrollment	-15,571	-1,737	-23,073
% change enrollment 1993-98	2.7	4.3	3.5
% free/reduced lunch	-9.8	-10.9	-14.0
Median income	$6,335	$6,726	$9,947
% African-American students	-12.2	-12.0	-17.3

Finally, students move to districts where the average share of African-American students is 10 percent lower than in their home districts. This last point is striking, because the statewide average includes many transfers between rural districts where the racial difference is essentially zero. Few African-American students live either in the educating or the resident district. This implies that districts accepting non-resident students in other parts of the state must have substantially lower concentrations of African-American students than the sending districts.

The statistical profile of choice student flows is reinforced and made vivid in a series of maps. The geography of in-transfers, out-transfers, and net percentage change is displayed in Maps 5, 6, and 7, respectively. Two important patterns stand out – one for rural areas, the other for urban districts. Several rural areas of the state (such as the Upper Peninsula and the thumb region) have had relatively high rates of student participation. Other rural regions have been untouched. At the regional level, the primary determinant of the degree of choice participation comes from the supply side. Inter-district flow is largely a result of districts' decisions to open enrollment. This can be seen by overlaying Map 4 (which shows participating districts) with any of the student flow maps. The shaded regions in all four maps display substantial overlap. Although the flows are not balanced for individual districts, students generally move when districts open enrollment.[11]

MAP 5

STUDENTS TRANSFERING OUT OF RESIDENT DISTRICT AS A PERCENT OF RESIDENT ENROLLMENT, 1997-98



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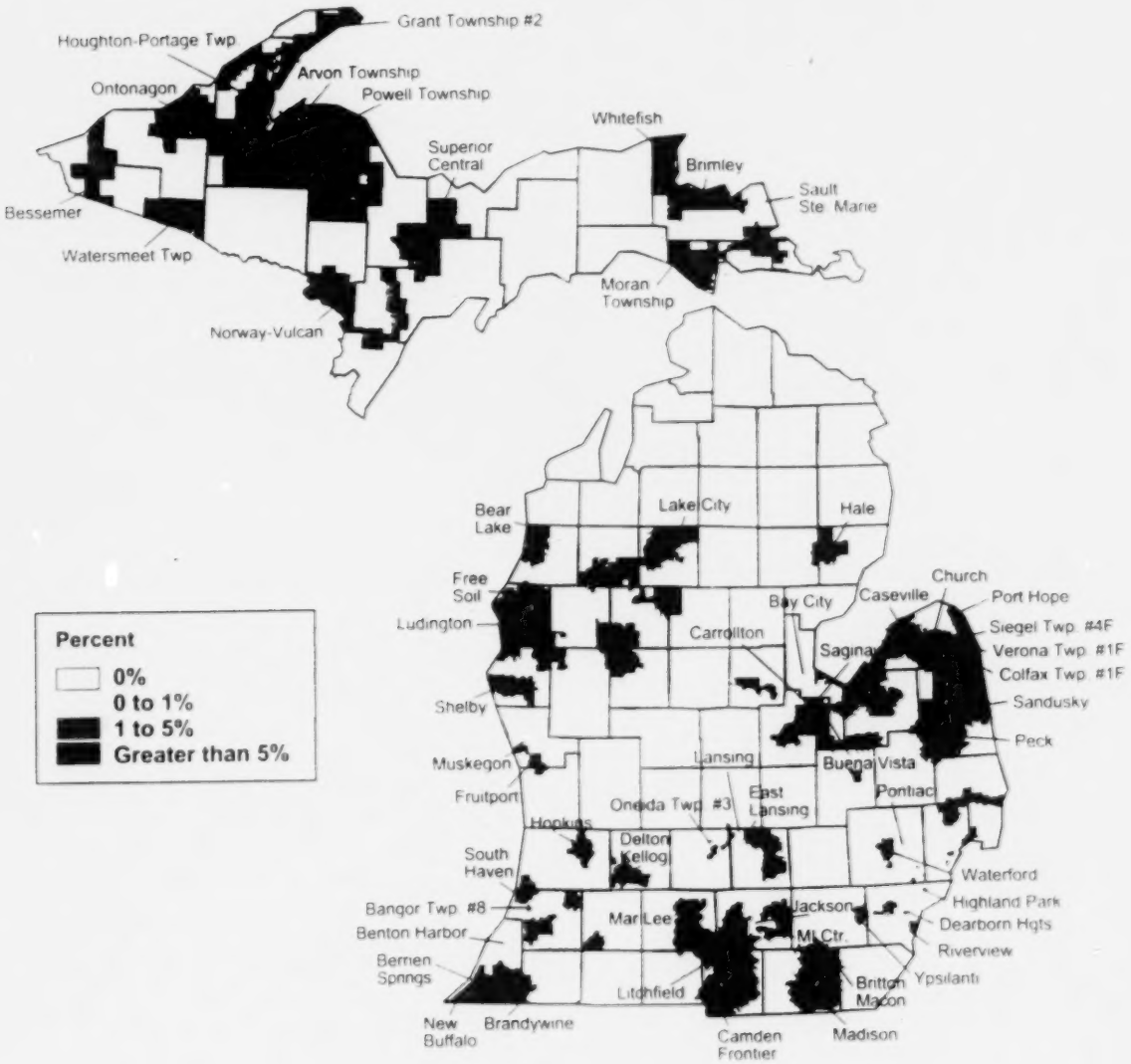
MAP 6

NONRESIDENT, INTER-DISTRICT CHOICE STUDENTS AS A PERCENT OF RESIDENTIAL ENROLLMENT, 1997-98



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The main drama in urban settings takes place in Michigan's mid-sized cities. Cities such as Saginaw, Jackson, Pontiac, Niles, Adrian, Inkster, Ecorse, and Hillsdale display much higher rates of choice participation. They also incur more substantial revenue losses. In each of these cases, certain neighboring districts have enjoyed significant enrollment and revenue increases.

Michigan's three largest central cities (Detroit, Grand Rapids, and Flint) have all experienced net enrollment losses of less than 1 percent to suburban districts. (The actual number of students leaving Detroit is more than the number leaving any other district, however.) In each case, enrollment declines appear to be moderated by the actions of suburban districts. Intermediate school districts in Kent and Genesee counties have instituted their own inter-district choice programs that limit the number of students leaving and entering districts. Most of Detroit's Wayne county neighbors have made few or no spaces available to non-residents. State rules have until now prevented Detroit students from crossing ISD boundaries into Oakland or Macomb counties. A few Wayne County suburbs have fairly substantial inflows of non-resident students, but except in Highland Park they are not coming primarily from Detroit.

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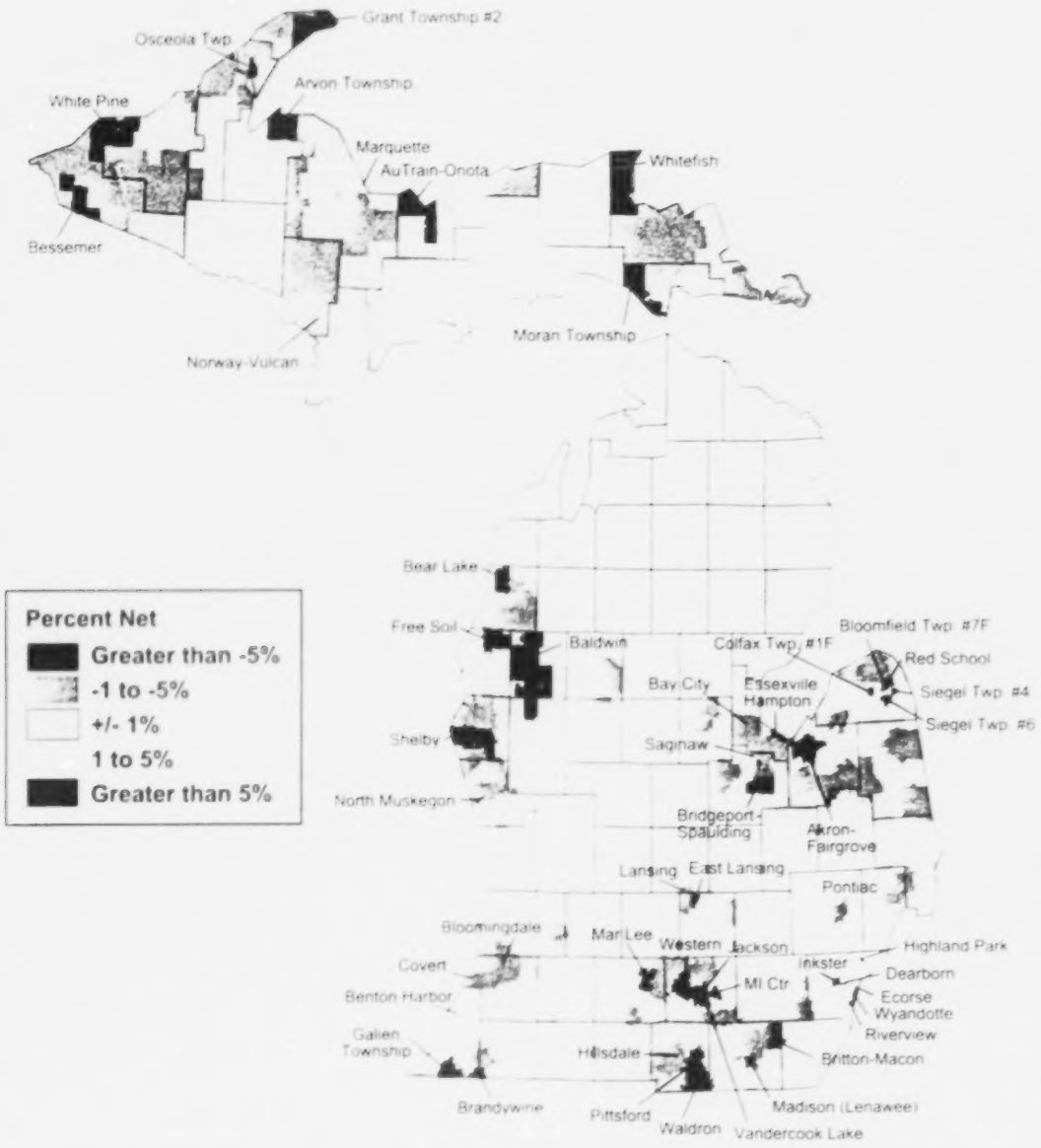
MAP 7

NET PERCENT ENROLLMENT CHANGE THROUGH INTER-DISTRICT CHOICE, 1997-98



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SUMMARY

Michigan's public school choice policies have had limited impact on enrollment levels in most districts. They have had a moderate impact on others, and a substantial impact on a small set of districts. Statewide, about twice as many students participate in charter schools as in inter-district choice. There are some common features in participation patterns related to these two programs, but the geography of choice is significantly different. In fact, a variety of statistical tests indicate that patterns of participation in these programs are not related to one another.

Charter schools offer options for students primarily in metropolitan areas. Inter-district choice operates in both rural and urban settings. Charter schools are more likely than inter-district choice to offer options in the state's largest cities. Some small and mid-sized cities have experienced substantial enrollment declines as a result of the two choice policies.

Currently, we can only estimate the magnitude of changes in enrollment and revenue attributable to Michigan's choice policies. More precise documentation would require information on the home districts of students who attend PSAs. It would also require us to identify the number of students who had already left their local public district before participating in public school choice. According to our interviews, some students leave private or home schooling and re-enter the public system as choice students. So, measures of student flow would not necessarily represent the actual change in net enrollment or revenue.[12]

Nevertheless, the data clearly indicate that PSAs and inter-district choice drain the resources of districts with high concentrations of poor and minority students and low educational outcomes. Measures of socioeconomic status and education outcomes are highly correlated. Therefore, it is difficult to determine the relative weight of considerations such as education, race, or class in school choice decisions. Parents' assessment of school quality surely plays some role. Preference related to the race and/or social class of their children's classmates is no doubt also important.

The data on the geography of school choice can be viewed from two perspectives. Some people will see choice policies as reinforcing a harsh cycle of decline in poor districts. From this point of view, choice depletes the capacity of schools pressed with the most difficult educational challenges. Others will commend the mobility patterns documented in this report. They will see choice policies as providing options in districts where they are most needed and most likely to spur change in poorly performing schools.

Our data support both perspectives. Clearly, choice policies are creating options for some families in urban and rural districts. Many of these families were previously obliged to send their children to schools they regarded as unsatisfactory. Allowing them to leave these schools and choose schools that they prefer makes them better off. The pattern of "upward filtering" we described earlier exemplifies this development.

At the same time, however, the exodus of these families imposes additional hardships on a small but vital set of districts in the state. The decline in enrollments in these districts began before the introduction of choice policies, but school choice has accelerated this process. Advocates of choice may see this as a positive development, but we question what will happen to the children who are left behind in these declining districts. We return to this point in the concluding section of the report.

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INNOVATION IN PUBLIC SCHOOL ACADEMIES

Charter school supporters believe that "freestanding" schools will have greater opportunities to develop new ideas and practices, which in turn may benefit other public schools. A member of the Michigan State Board of Education, for example, has argued that,

> *Innovation will result from the creativity of pioneers who develop a product or service that meets a need we might not even have known before. Competition and the innovation that it fosters will bring down the cost and time of education.*[13]

Innovations in charter schools are important because they will directly benefit the students who attend as well as those in other schools that adopt charter school innovations. Proponents hope that charter schools might lead the way to wider improvements in all public schools, stimulated by competition and imitation of successful practices.

While these are important claims to evaluate, several issues complicate judgments about innovation and the diffusion of best practice. One is the definition of innovation itself. What is meant by the term? What kinds of innovations "count?" Another is the basis upon which to evaluate innovations. Simple customer or client satisfaction might serve as one measure, but other criteria may be of interest as well. For example, we may ask whether the innovation produces worthwhile outcomes at lower or equivalent cost to existing alternatives. These three criteria—satisfaction, effectiveness, and efficiency—may be adopted singly or in combination to evaluate PSA contributions, but evidence on each is very thin. Beyond these issues, we also can ask whether innovations in PSAs have spread to other schools and through what processes this may have occurred. Finally, research on innovation diffusion in other sectors typically relies on extended time frames—decades, not months or years. It is too early to draw any definite conclusions on this question, but we can offer some preliminary, descriptive observations around two questions: (1) What kinds of innovation have emerged within PSAs so far?; and (2) Have these innovations spread to other schools? The question of innovation's impact or effects lies beyond the scope of our research to date, but is an important issue for future work.

KINDS OF EDUCATIONAL INNOVATION

We identify three major areas in which educational innovation can take place.

- *Teaching and learning.* Schools can introduce changes in instructional practice, curriculum, and assessment of student learning.
- *School organization.* Changes can be introduced in school or class size, grade configurations, class and academic year scheduling, and other structural features, as well as aspects of school culture or community.
- *Governance and management.* The structure of authority and administration in schools can be changed. Who participates in school decision-making, how, and with what influence?

These categories are not independent. For example, innovations in school organization or governance might contribute over time to changes in teaching and learning. Indeed, this is precisely the claim put forth by many charter school advocates. Beyond this, looking at innovations one at a time overlooks the possibility of combined or interdependent effects. Schools may introduce multiple innovations simultaneously. The impact of any one innovation may turn on whether or not some other innovation is present.

PSA Innovations in Teaching and Learning

Some charter schools are trying new approaches to teaching and learning but many are not. Most of the changes are still marginal.

Our observational evidence on PSA innovations in the areas of instruction, curriculum, and assessment is mixed, but reveals modest developments so far. Some charter schools are trying new approaches to teaching and learning; many are not. Moreover, most of the changes in this area are still marginal. We observe few significant departures from conventional practice. Students still sit at desks in rows facing the front of the room where the teacher lectures and leads discussion. We see some variations on this timeless format in charter schools, but they are no more frequent than in traditional public schools.

We observe four main types of innovation in charter school teaching and learning. First, some charter schools are pioneering distinctive curricular themes such as African-centered education that stress particular ethnic heritages and identities. The change here should not be overstated. This type of curricular emphasis is already observed in some traditional public schools where students are predominantly members of racial or ethnic minorities. In addition, the shift in curricular emphasis in many of these charter schools has been combined with very traditional styles of teaching and evaluating students.

Second, some charter schools have begun to experiment with new technologies. Many parents seek instruction in the use of computers and other advanced technologies for their children. It therefore makes sense for PSAs to highlight technology in their mission statements and promotional materials. Here too, however, progress has been slow, as it has been in public schools. Teachers, administrators, and parents must learn how to make effective use of technology for learning, which takes time. PSA advances in the uses of technology generally lag behind those in good suburban schools, where the capacity to support new technologies is far greater.

Third, some charter schools seek to develop specialized approaches to vocational training by connecting schools and workplaces in novel ways. Traditional public schools offer a range of vocational education programs as well. What distinguishes vocational education in these PSAs has little to do with dimensions of teaching and learning. Rather, the main differences fall in the area of school organization.

Fourth, a few charter schools are introducing whole-school programs that combine a set of innovative developments derived from research and exemplary practices. Schools managed by the Edison Project are the most prominent example. Edison schools are also at the forefront in seeking to integrate new instructional technologies, and to develop school-to-home computer linkages.

In most of the charter schools that we and other observers have studied, however, traditional approaches to curriculum and instruction predominate. Teaching and learning in most charter school classrooms is indistinguishable from teaching in other public schools. In fact, many charter schools have adopted standard curriculum packages supplied by commercial publishers, Intermediate School Districts, or management companies.

PSA INNOVATIONS IN SCHOOL ORGANIZATION

On a number of organizational dimensions, PSAs differ from most traditional public schools. They tend to be smaller in size, to offer smaller class sizes, and to include a wider range of grade configurations. These structural features all support the development of close-knit communities, where individual students are well known by faculty, and where parents are welcomed into the school. PSAs also have flexibility to shape staffing patterns to make use of parent volunteers and aides, support services personnel, and leadership positions for teachers, parents, and other community members. They also can experiment with new uses of time, any school's most precious resource. For example, charter schools can alter daily, weekly, and annual schedules to accommodate new curricular and instructional practices. And, they can "bundle" an expanded array of services and programs in the school to better meet community needs and preferences.

Innovations of these kinds are appearing in some charter schools, but few common patterns have emerged, other than intimate scale and the offering of all-day kindergarten as an additional program. Variation across charter schools in organizational innovation most likely parallels the regular public schools, which also include many of these same variations. What is not apparent, then, is a tight connection between the auspices under which charter schools are founded and any particular innovation, except school size.

At the secondary level, PSAs that specialize in vocational or alternative education programs are distinguished mainly by the fact that instruction takes place in schools in which there are no students pursuing regular academic programs. Traditional secondary schools typically include students who take both college preparatory and vocational courses. Students from the two tracks come in contact in certain classes, through extracurricular activities, and in the hallway or lunchroom. The distinctive organizational feature of vocational PSAs is that their students are more homogeneous in their interests.

PSA INNOVATION IN GOVERNANCE AND MANAGEMENT

The most significant innovations associated with charter schools are found in the area of school governance and management. These are basic innovations that should be recognized as such. The most important charter school innovations are not about teaching and learning, but rather about control over school operations. Of particular significance in Michigan is the emergence of the EMO as a new and important actor in the management and governance of charter schools. This is an important development that bears careful scrutiny.

PSA innovations come in the form of both institutions and incentives. The institutional structure of PSA governance is clearly different from that in traditional public schools. In Michigan, unlike some other states, all but a few PSAs operate outside the control of popularly elected local school boards. They are relatively autonomous schools, in which authority resides with a board appointed in consultation with the school's chartering agent. The incentives are different as well. PSAs must attract students to survive. This is also true for traditional public schools since the passage of Proposal A, but public schools continue to enroll all of the students within their attendance boundaries who do not make other choices. PSAs have no students assigned to them.

In principle, therefore, the market serves as a fundamental source of accountability in PSAs, making these schools more responsive to the preferences of families and the school community. How these market pressures actually affect the operation of charter schools is not yet clear, however.

EDUCATIONAL MANAGEMENT ORGANIZATIONS

Although they are conceptually distinct, the question of PSA governance and management has become tightly linked with the operation of Educational Management Organizations (EMOs). The majority of Michigan's PSAs now contract for services with private, for-profit EMOs. These new actors within the educational system emerged in response to some of the obstacles confronting charter schools, such as the need for start-up funds or the challenge of complying with state reporting requirements.

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The EMOs currently in operation in Michigan represent a very heterogeneous group of firms. They vary in terms of their size, their scope and their managerial and marketing sophistication. Key personnel in these firms have come to the field with varying levels of experience in education. EMOs can adopt a variety of organizational forms and market strategies. Some operate a single school. Others manage multiple schools in several states. These so-called "chain" operations sometimes possess significant financial resources and can offer a total package of services (curriculum, assessment, and administration), rather than just transportation or provision of school lunches. Some EMOs attempt to implement a uniform, whole-school design in each of their schools. Other EMOs offer a menu and price list for a range of specific services. In principle, EMOs could be non-profit organizations. In Michigan, however, for-profit EMOs are overwhelmingly the norm.

The presence of EMOs among Michigan's charter schools is expanding rapidly. During the 1997-98 school year, about 50 percent of all PSAs contracted out services to EMOs. During the 1998-99 school year, this figure increased to 70 percent. Many new applicants for school charters have agreements with EMOs already in place.[14] Ten firms make up the bulk of EMOs in Michigan. The most prominent are the Edison Project, the Leona Group, Beacon Educational Management, TesserAct (formerly Educational Alternatives, Inc.), and the National Heritage Academies. By some estimates, Michigan has more PSAs run by for-profit firms than any other state.

EMOs offer potential advantages to the organizers of charter schools in any state. So the question naturally arises as to why EMOs have flourished in Michigan more than elsewhere. The answer lies in the rules:

- Unlike some states, Michigan **permits** EMOs to manage charter schools.
- Michigan charter schools receive full-funding, roughly equivalent to the per pupil revenue received by traditional public schools.
- Michigan offers very limited start up funding for charter schools, so EMOs help new schools to gain access to private capital.
- Few of Michigan's PSAs are chartered by school districts, which increases administrative autonomy and limits the influence of teachers' unions and collective bargaining.
- PSAs do not have to make contributions to the Michigan Public School Employee Retirement System (a defined benefit program) on behalf of teachers and staff who work in the school but are employed by an EMO. The potential cost saving is significant. Rather than contribute roughly 15 percent of payroll to MPSER, an EMO can set up a 401k plan to which it contributes a percentage of payroll. Consequently, PSAs can substantially reduce the effective cost of the EMO management fees (typically around 10 percent of the PSA's state revenue) by reducing their employee retirement expenses.

EMOs provoke strong reactions from both proponents and critics of school choice. With the emergence of EMOs, the "market" metaphor used to characterize school choice has become a good deal more apt. Unlike public schools operating within a school choice regime, EMOs can compete on the basis of price. They also can accumulate profits. This is a powerful force, capable of driving fundamental organizational change.

The education management industry is in its infancy, but clearly growing. New firms are entering the market, attracting a wide range of private investors. Charter schools are only one dimension of this industry. Potentially, EMOs could provide services to traditional public and private schools as well. However, charter schools present a set of conditions that are especially favorable for the entry and growth of EMOs.

The Rules Matter

The emergence of EMOs in the public school system raises a number of policy issues. The most important of these are related to the boundaries between public and private sectors, and to the ways in which these new organizations will be held accountable for the use of public resources.

One key question that arises in schools managed by EMOs is how much influence parents and teachers will retain in schools run by large, private-sector companies. As "customers," parents in these schools have the right to "vote with their feet" and leave schools that fail to provide satisfactory educational services. Although this is a powerful form of leverage, withdrawing children from school is never easy. Short of withdrawal, parents' ability to influence their schools is likely to be limited. Similarly, teachers in most charter schools are "at will" employees. They have the right to quit when schools fail to fulfill their expectations or professional aspirations. But, their influence otherwise is restricted to areas in which employers seek their involvement.

It also is debatable whether management by private sector bureaucracies is better than management by public agencies, including school boards. Experience with health maintenance organizations (HMOs), for example, suggests that there are costs as well as benefits to delegating services to private sector organizations. One of these costs is the financial incentives for HMO administrators to intervene in decisions previously made by patients and their doctors. Some observers are concerned that EMOs may impose similar costs in the public school system.

Another key question is how EMOs will be held accountable to the citizens and taxpayers who provide their revenues. To some degree, this is a matter of designing policies to ensure that public schools managed by EMOs adhere to their obligation to serve all children. Just as HMOs may prefer to enroll healthy clients, EMOs may prefer to enroll students who are relatively easy or inexpensive to educate.

Ensuring public accountability is also a matter of monitoring the use of public funds. EMOs charge PSAs for their services. However, they provide little detail about the nature of services provided or the allocation of funds received. They justify this policy on the grounds that they are private rather than public-sector organizations.[15] Public school districts publish their budgets every year, and they are scrutinized by voters and taxpayers. It is reasonable to ask why EMOs should not be subject to the same accounting standards for their expenditure of public funds.

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DIFFUSION OF CHARTER SCHOOL INNOVATIONS

The mere appearance of an effective innovation does not assure that it will be imitated or widely adopted. According to one popular view, competitive pressures in the new market for schooling will naturally stimulate imitation of successful or popular programs and practices. Schools that are losing students and dollars to competitors may adopt programs and practices that appear attractive to parents, in order to improve their competitiveness. Competitive pressures certainly increase the incentive for schools to imitate successful competitors, but the pace at which educational innovations spread also depends on the availability of networks to transmit information.

Networks suitable for disseminating information about innovations can operate in both the public and private sectors. For example, chartering agents or other government agencies (e.g., Intermediate School Districts, State Department of Education) might identify and disseminate successful programs and practices among PSAs and to other schools.[16] In the private sphere, trade associations or voluntary networks might spread the word about effective practices in instruction, management, and governance. Other, less formal, networks may operate as well. For example, teachers from an innovative school may move to other schools, taking their knowledge of new practices with them. All of these mechanisms may operate at once, reinforcing one another.

Some networks link traditional public schools with one another. Other networks foster communication among PSAs. At present, though, no effective networks for the diffusion of innovations between PSAs and traditional public schools have been established.

Two innovations have been adopted in many of the public schools that now face direct competitive pressures from PSAs. These are the addition of all-day kindergarten and of active marketing strategies to influence parental choice of schooling. Historical study of innovations in education has revealed that reform typically occurs by addition, not transformation. The school system has grown by adding new functions, programs, and offices, rather than by dramatically altering core operations. Competition from PSAs as a stimulus to innovation reflect this history. The "spontaneous" spread of new ideas and practices from PSAs to other schools has been limited to a few add-ons that are popular with parents and communities. This may be counted as evidence in favor of the market theory. We suspect, however, that if PSAs begin to develop innovations that may be used in regular public schools, formal diffusion strategies will be needed to evaluate and spread such practices. State or regional government might support such diffusion in conjunction with professional associations and other private actors.

SUMMARY

PSAs are pioneering new forms of organization, governance, and management in Michigan's education system. Most centrally, they represent an experiment in governance, in which parents and local communities are granted considerable control over public schools of their own making. In conjunction with the administrative oversight of chartering agents, the discipline of the market is a primary instrument of accountability, rather than oversight from district administration, school boards, or collective bargaining agreements. If PSAs do not satisfy their constituents, they will not survive. This simple market test represents a dramatic departure from the ways most public schools have traditionally been held accountable. We still know relatively little about whether and how PSAs seek to change their approaches to teaching and learning in response to parental and community demands. We also know little about how other agencies, including EMOs, may be affecting the distribution of influence in these schools.

In Michigan, charter schools have come to be closely associated with EMOs as an innovation in management. Encouraging private companies to provide a wider array of educational services is a relatively new development in American education. One may hope that such companies, guided by the profit motive and operating in competition with one another, will discover more efficient ways to manage schools. Other, less desirable outcomes also are possible, however. These require additional scrutiny, because public dollars are at stake.

Finally, it seems unlikely that PSAs will be major sources of innovations related to teaching and learning. Charter schools may be justified on other grounds. They may realize the hopes of particular parents and communities. They probably will not serve as instruments for general improvements in curriculum or instruction in Michigan's education system.

There are several reasons why this is so. To begin with, charter schools' ability to attract students depends on their success in responding to the preferences of parents. If parents demand new practices in teaching, curriculum, and assessment, then charter schools may begin to provide them. Survey research repeatedly reveals, however, that most parents favor traditional instructional practices and a curriculum focused on firm discipline and mastery of basic skills. Insofar as this is what parents want, PSAs have little to gain and much to lose from experimentation with innovative practices.

In addition, PSAs are under strong pressures to perform well on the MEAP. Results on the MEAP are widely reported in newspapers, and are often used to compare charter schools with other public schools in their vicinity. These comparisons may be unfair and misleading, but they exert influence nonetheless.[17] As in other public schools, PSAs must adopt curricular materials and instructional practices that help students succeed on these tests. Under these circumstances, innovation is a risk that PSAs prefer not to take on.

Two other factors also limit innovation in PSAs. First, the cost of developing significant innovations is often high. The Edison Project, for example, has spent millions of dollars developing its instructional design. Independent charter schools and small management companies may lack the resources needed to create and test new programs and practices. As a result, most PSAs turn to "off the shelf" materials and programs that are also in use in traditional public schools. Second, working conditions in many PSAs do not support innovation. PSA teachers are younger and less experienced than their public school counterparts. They work on "at will" contracts, without tenure or job protections. They are paid less than regular public school teachers. Rates of teacher turnover are reportedly high in PSAs, as they are among all new teachers. In general, then, PSA teachers concentrate on mastering the basic skills of their profession. Neither experience nor incentives are likely to make them innovators.

4

CHOICE AND CHANGE IN PUBLIC SCHOOLS

Michigan's school choice policies are intended to benefit all public school children – not simply those who take advantage of the new options. Advocates and critics alike commonly judge choice policies in terms of the test scores or parental satisfaction of students who participate in choice. We also need to know how school choice policies affect the 97 percent of public school students who are not active choosers, however. These policies affect not only the children who move to different schools, but also the children who remain in the schools they leave.

One of the central objectives of our research is to examine how traditional public schools respond to the introduction of school choice. Our findings yield five key points. First, choice has had very little impact on most of the state's school districts. Second, even among districts experiencing moderate enrollment impacts from choice, administrators often do not perceive student mobility as offering useful signals for guiding educational improvements. Third, when responses to choice are observed, they are typically orchestrated at the district rather than the school level. Fourth, in districts that have lost substantial numbers of students to charter schools and neighboring school districts, a variety of responses has begun to emerge. Finally, we observe both competitive and cooperative responses among school districts. Some of the most interesting district responses are not autonomous and competitive but rather cooperative and joint with other schools and organizations.

Public school responses depend in part on the leadership, resources, and attributes of individual districts. They also depend on how heavily choice has affected district enrollments. Starting with districts where choice has had limited effects, we conclude with districts where changes in enrollment have been larger.

Advocates and critics judge choice policies in terms of the test scores or parental satisfaction of students who participate in choice. We need to know how school choice policies affect the 97 percent of public school students who are not active choosers.

LIMITED MARKET PENETRATION

So far, Michigan's school choice policies have had little impact in most school districts. This is partly an issue of market penetration. Student mobility under the state's choice policies simply has not been sufficient to prompt much response in most districts. Charter schools have located in only about 10 percent of the state's districts. Inter-district choice transfers account for less than 1 percent of enrollment in the vast majority of school districts. Of course, as noted in Section 2, choice has produced moderate enrollment changes in many districts and substantial changes in a relative few. The story in these districts is somewhat different. For most districts, however, the state's current school choice policies are not front-burner issues. These districts have made few changes in school operations in response to choice.

Our interviews and surveys of administrators and school board members show that public school educators generally view the educational programs in most PSAs as inferior to those available in their own schools. This is especially true in suburban school districts. From the perspective of these administrators, PSAs simply cannot match the teacher quality, facilities, or range of programs available to students in their districts. PSAs do not represent viable competition, and they do not offer useful models for improvement. Administrators in these low-participation districts tend to accord more legitimacy to the inter-district transfer options than to the PSAs. They also see neighboring school districts that accept non-resident students as more formidable competitors.

Some administrators note that choice offers alternative options to a small segment of parents who are chronically dissatisfied with district operations. Choice provides a safety valve for these families, and local administrators are often happy to see them go. Choice allows some troubled students to make a clean start in a different school setting. Other families return to their neighborhood schools after learning that the grass is not necessarily greener elsewhere.

A few administrators in low-participation districts also speculate that school choice has had an indirect impact. Very few administrators could identify any specific programmatic changes attributable to choice. On the other hand, most noted that parents have become much more demanding 'consumers' of educational services in recent years. As a result, their districts are now more attentive to satisfying parental preferences. A few administrators suggested that Michigan's school choice policies might have contributed to this change.

STUDENT MOBILITY AS A SIGNAL FOR DISTRICT CHANGE

Even in districts where relatively large numbers of students participate in choice, student departures do not always signal the need for educational improvements. In many instances administrators do not know why students move. In other instances the factors that lead parents to move their children from one school to another are beyond a school district's control.

Schools of all kinds interpret the new market signals introduced by school choice policies against a prevailing background of turbulence. Even before the advent of choice, many schools experienced rapid turnover among students. Students left and returned because of family moves, shifting custody arrangements, and other factors. The introduction of additional choices adds a new source of student mobility to those already in effect. Choice increases turbulence in these schools, without giving administrators unambiguous information about how to respond. It is hard to separate the competitive pressures introduced by new choice policies from the "noise" produced by student mobility caused by a host of other factors. If choice is to provide more useful signals for guiding school improvement, then districts will have to adopt much more ambitious practices for surveying and analyzing the reasons behind the arrival and departure of students.

In other instances, district administrators know why students choose to leave their schools. They find themselves unable to respond, however, because the factors that lead students to choose other schools are beyond their power to change. For example, parents may prefer schools in which curricula are focused on the values or concerns of a particular community, or in which the student body includes fewer (or more) members of specific racial or ethnic groups. One of the main attractions of charter schools for many parents is their ability to construct a clearly defined school community. Regardless of how widely or intensely such preferences may be held, however, it is generally inappropriate or infeasible for traditional public schools officials to respond to them. PSAs can target niche markets, but traditional public schools must be prepared to serve all of the students living within their attendance boundaries.

Inter-district choice policies affect different students and different school districts than charter schools. Public school officials nevertheless believe that student mobility across district lines is often affected by factors beyond their control. Most significantly, administrators reported instances where the movement of significant numbers of students across district lines appeared to be influenced by the racial composition of the student body in the districts that the students were leaving and the districts they were choosing. Other transfers take place because parents

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seek to enroll their children in a school close to their workplace, or close to a relative or other child-care provider. The most commonly reported determinant of inter-district transfers, however, was the desire of parents to send their children to school in districts ranking a notch higher in the social status hierarchy. Administrators see little that they can do to counter these moves.

RESPONSES BY DISTRICTS VERSUS SCHOOLS

In Michigan the competitive pressures introduced by school choice have had less impact on individual public schools than on school districts. When enrollment declines, the loss of resources is felt first at the district level, where financial control is located. Resource allocation decisions within districts cushion the fiscal impact of choice on individual schools.

Schools could be affected by school choice policies if their enrollment losses were large enough to produce teacher layoffs or major program cuts. To date, however, few schools have experienced declines large enough to feel the direct effects of "market pressures." In contrast to district administrators, as a result, principals are relatively indifferent to competition from PSAs and neighboring school districts.

To note that districts currently orchestrate most responses is simply to recognize that administrative and financial control remains highly centralized in most Michigan school districts. This situation may be changing, however, and it is possible that school choice will hasten the process. In at least one urban district that has experienced significant enrollment losses, some principals report that district administrators are encouraging schools to propose new ideas. They are more receptive to innovations that might make their schools more competitive.

RESPONSES IN DISTRICTS EXPERIENCING SIGNIFICANT ENROLLMENT LOSSES

In as many as 30 of the state's school districts, the loss of students to charter schools and neighboring school districts has created severe budgetary pressures.

In as many as 30 of the state's school districts, the loss of students to charter schools and neighboring school districts has created severe budgetary pressures. Most of these districts enroll high concentrations of poor students. These are school systems that were already confronting serious educational challenges. They must now attempt to improve their educational offerings with fewer resources.

Administrators in these districts clearly recognize that school choice policies have contributed to fiscal stress. The possibility of further declines weighs heavily as cuts in programs and staff are contemplated. In these districts choice has contributed to a sense of urgency. How have they responded?

Lansing Public Schools represents a case in point. Lansing has been heavily affected by the new choice policies. Five PSAs have been established in Lansing, with three more scheduled to open in fall 1999. Together these schools enrolled just under 2,000 students in 1998-99. In addition, Lansing experienced a net loss of roughly 325 students to surrounding suburban districts through inter-district choice. Some of the students who attend PSAs live outside of Lansing, and some of the inter-district choice students who live in Lansing were attending nonpublic schools before they chose schools in other districts. We estimate, however, that about 1,900 students have left Lansing Public Schools for choice options. This represents 10 percent of district's 1998-99 enrollment, and an annual revenue loss of over $11 million.

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How has the district responded? Since the advent of choice, the Lansing Public Schools have:

- Developed and funded a program to market the Lansing Public Schools via radio, billboards, and other media;
- Instituted all-day kindergarten;
- Entered into a cooperative agreement with the local community college to offer technical-vocational courses to high school students through an inter-institutional agreement;
- Created a "community school" in cooperation with Michigan State University that features strong outreach programs and substantial university involvement;
- Entered into a contract for better truancy management with an independent institute devoted to serving troubled youth;
- Developed honors programs in the middle schools;
- Participated in a blue ribbon task force (organized by the Mayor) that recommended school improvements such as a tutoring program, enhanced use of technology, and reduced class sizes;
- Instituted a community-wide planning process to deliberate on several school closings, the renovation of other schools, and a strategic plan for construction of new buildings; and,
- Organized a district-wide effort to align the curriculum to the state's standards, as part of an effort to elevate student achievement on the MEAP tests administered in grades 4, 8, and 11.

These initiatives cannot be attributed solely to the competitive pressures introduced by school choice policies. Similar initiatives can be found in districts where scarcely any students participate in school choice. There can be little doubt, though, that fiscal stress caused by enrollment declines reinforced other pressures to create and sustain an environment more supportive of new ideas and initiatives.

Lansing's experience is not unique. Other districts have suffered larger proportionate enrollment and revenue declines. These districts have responded to competitive pressures in a variety of ways. First, despite tightened budgets, they are devoting more resources to marketing campaigns designed to attract or maintain students. These feature radio and TV spots, billboards, and newspaper advertisements. Second, high-impact districts have instituted all-day kindergarten, in direct response to PSAs that offered this program. Despite the added cost, they see this as an essential strategy to encourage families to enter their school systems. Third, districts are offering new programs through partnerships formed with outside organizations, including local community colleges, ISDs, or EMOs. For example, a number of urban districts in Michigan have formed partnerships with the Edison Project. The financial strain introduced by choice appears to have generated a more open disposition towards such partnerships in high-impact districts. Finally, a few districts, including the Detroit Public Schools, have begun to charter their own schools.

Most responses in high-impact districts do not entail basic changes in curriculum or instructional practice. For the most part these districts do not try to imitate curricula or instructional practices in the PSAs or neighboring districts to which they are losing students. As noted in the preceding section, choice does not yet appear to offer much leverage for the improvement of classroom instruction in public schools.

Furthermore, it is not clear that any of these responses can either arrest or reverse the decline in enrollment. The changes that are taking place are welcome, including an enhanced responsiveness to parents and openness to new ideas both from within and outside the district. But these may not be enough.

Enrollments in most high-impact districts were already on a downward trajectory well before school choice policies were introduced, because of the movement of families out of urban centers. School choice policies have compounded already urgent problems. The departure of additional students has further weakened their capacity to respond effectively. The result is accelerated deterioration, and the possibility of a downward spiral toward collapse. In these districts, the effects of choice are potentially damaging to large numbers of students who are left behind.

STRATEGIC RESPONSES TO SCHOOL CHOICE

A notable feature of the emerging public school response to choice policy is that school districts adopt both competitive and cooperative strategies. As noted, most districts are not actively responding to choice policy. Among those that are, there are two basic courses of action:

1. Districts (or schools) may respond autonomously. They may seek to enhance their own resources at the expense of other schools, by making their programs more attractive to parents. We characterize this as a **competitive** response.

2. They may develop joint responses. Districts may work with charter schools and neighboring school districts to manage competition and/or share the market. We characterize this as a **cooperative** response.

Between the two, the competitive response is more widespread. In a growing number of cases, however, Michigan's school choice policies have produced a variety of cooperative responses.

Inter-district choice policy presents an opportunity for school districts to compete with neighboring districts. Those who are successful in this competition gain students and revenues, at the expense of their neighbors. As we have shown in Section 2, there are several instances in both rural and metropolitan areas where districts have successfully pursued competitive strategies to attract substantial numbers of students from neighboring districts.

Our interviews suggest that school districts have not typically developed new programs to attract non-resident students. Instead, they have simply taken advantage of inter-district choice to fill available spots in their existing schools and programs. There have been exceptions, however. The district with the single largest in-flow of non-resident students in Michigan is Highland Park. In 1997-98 Highland Park attracted 700 non-resident students, virtually all from Detroit. These non-resident students were primarily attracted to a variety of alternative education programs. These 700 students represent less than 0.5 percent of DPS's enrollment, but they now account for nearly 20 percent of Highland Park's revenue from the state.[18]

In most cases of explicit cooperative actions, Intermediate School Districts have played a key role in orchestrating the joint response among districts. ISDs are established administrative units that already bring together local district administrators to address common concerns. Some ISDs have highly-trained technical staff who can assist in the design and implementation of special programs. ISD staff can also broker agreements among local districts.

School districts can also work together through their ISD to establish charter schools that offer specialized programs that serve students from each district. Many ISDs already coordinate specialized programs that draw students from multiple districts, which permits districts to offer vocational and alternative programs that they could not support on their own. One example of this kind of cooperative response is the Academy for Technology and Enterprises, which is chartered by the Saginaw ISD and operated by the Saginaw Public Schools. It serves 500 students from the 13 districts in the ISD plus several private and parochial schools. Another example is the task force organized by superintendents in the Kent ISD. The task force will investigate how local school districts might take advantage of choice policies to compete more effectively with charter schools and EMOs.

Acting under the auspices of an ISD, local districts can "opt out" of the state's inter-district choice program and adopt their own inter-district choice policy instead. School districts in the Kent and Genesee ISDs have developed their own choice policies. These allow some student movement, but restrict the number of students who may enter or leave districts to a specified percentage of total enrollment. As a result, fewer students enroll in schools in neighboring school districts in the Kent and Genesee ISDs than in comparable areas elsewhere in Michigan.

As with competitive district strategies, cooperative strategies can bring advantages and disadvantages. If they are simply collusive arrangements among potential competitors to insulate themselves against the challenges of fair competition, they are difficult to defend. On the other hand, school districts that adopt cooperative strategies may create opportunities for specialization that expand curricular options, eliminate inefficient duplication, and produce more balanced inter-district student flows. Student mobility can still signal parental preferences, without encouraging predatory practices that may push disadvantaged districts into a costly and inefficient downward spiral. The cooperative arrangements that have emerged thus far among Michigan school districts have not come close to exploiting the potential gains from cooperation, however.

SUMMARY

Most of the public school officials that we have interviewed are not hostile to school choice. They generally support the design and implementation of policies that expanded parents' ability to choose their children's schools. They recognize that choice and the competitive pressures that it introduces have the potential to stimulate positive changes in Michigan's schools. Some acknowledge that the possibility that parents will "vote with their feet" and enroll their children in other schools has made them more attentive and responsive to parents' concerns and demands. They are prepared to compete with charter schools (and with one another), so long as the rules are clear and the playing field is level.

This benign view of school choice policies prevails in most school districts, because most districts have not yet experienced much impact from these policies. In rural districts, few competitors to local public schools have emerged. In suburban districts, the quality of local facilities and programs exceeds what PSAs can offer. In virtually all districts, the convenience and familiarity of neighborhood schools represents a significant advantage in the competition for students.

In some districts, however, choice policies have begun to have a sizable impact. They have accelerated the rate of decline in enrollments, and intensified budgetary stress. These districts have begun to respond to the competitive pressures that choice introduces. Most have increased their efforts to market schools and programs, and many have become more responsive to the concerns of parents. Some have added new programs, in an effort to match the offerings of their competitors and to make themselves more attractive to parents. Over time, these efforts may bring about improvements in educational programs and performance. In some high-impact districts this may be sufficient to halt or even reverse the decline in enrollments.

In a relatively small number of high-impact districts, however, it is unlikely that local responses to choice and competition can halt the decline in enrollments. In fact, they simply make it worse. Students remaining behind in these districts will be made substantially worse off in the absence of active state intervention.[19] We return to this point in the concluding section of the report.

Public school officials... recognize that choice and the competitive pressures that it introduces have the potential to stimulate positive changes in Michigan's schools... They are prepared to compete with charter schools (and with one another), so long as the rules are clear and the playing field is level.

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SOCIAL SELECTION AND THE EMERGING MARKET FOR SCHOOLING

Not all parents want the same things from the schools their children attend. Some value rigorous attention to basic academic skills. Others seek opportunities for their children to explore different ways of learning. Some are committed to the traditional Western curriculum, while others emphasize alternative bodies of knowledge including Africa-centered or Native American models. Some parents insist on strict discipline in their children's classrooms, and some do not. Allowing parents to "sort" their children into schools that reflect their own aspirations and values clearly makes them better off. Presumably, it also increases their satisfaction with the schools their children attend.

Giving parents more opportunities to choose among schools may also support student learning, if it encourages schools to develop coherent curricula and consistent approaches to teaching and learning. When schools are not obliged to fit all students into a single framework, or to diversify their curricula in order to accommodate multiple competing values, they may be able to tailor what they offer to the particular needs and preferences of the parents and students they serve. The opportunity to focus the attention of students and staff on a common vision, and to call on the shared values of a specific community, is a potentially powerful resource for learning.

Giving families wider opportunities to choose schools that reflect their own values and preferences is one of the strongest arguments in favor of school choice. Expanding these opportunities nevertheless comes at a cost, in two main ways. First, it may undermine the ideals of democratic equality and common citizenship historically embodied in the public school system. Traditionally, public schooling has provided young people with a body of shared knowledge and values that allows them to fulfill the responsibilities of citizenship. Public schools also remain one of the few institutions in which children may come into sustained contact with people whose backgrounds, values, and opinions differ from their own. At their best, public schools provide a setting in which children learn the lessons of tolerance and civility which are necessary for effective participation in a diverse society. The move toward a system in which schools more closely reflect the values and preferences of parents may deprive children of their best opportunity to learn these lessons.

The opportunity to focus the attention of students and staff on a common vision, and to call on the shared values of a specific community, is a potentially powerful resource for learning.

In addition, expanding school choice may create incentives for schools to exclude students who do not "fit in" with the communities that they seek to build. For example, schools that seek to establish a reputation for academic excellence may wish to exclude students with weak academic preparation. Schools that aim to build and support a community based on shared values may wish to exclude students who do not share the prevailing culture and values of the school. All schools may wish to exclude students who are potentially difficult or costly to educate. Enrolling students who do not "fit in" may significantly raise costs, introduce conflict into the school, or even drive away more desirable pupils.

Michigan law prohibits public schools from selecting or excluding students. This prohibition applies to charter schools and to school districts enrolling students under inter-district choice, as well as to traditional school districts. Despite the prohibition, however, schools committed to building strong communities will still seek out ways to exclude students who do not "fit in." As we note below, some Michigan PSAs appear to be developing increasingly aggressive strategies for selecting their students. This deprives some students of their right to choose, and undermines one of the core purposes of school choice policies.

The debate about the effects of Michigan's school choice policies must address three fundamental questions.

- Who goes to school with whom?
- Do students choose schools, or do schools choose students?
- Who is responsible for the students "left behind" by choice?

Answers to these questions have powerful implications for the ways in which expanding choice will affect Michigan's education system.

WHO GOES TO SCHOOL WITH WHOM?

At one level, choice is a response to a powerful trend toward spatial and social differentiation. This trend emerged long before the introduction of school choice policies. As we commented earlier, urban households have for years sorted themselves out by income, race, and other characteristics in an increasingly diverse set of suburbs. One result of this "sorting" was the emergence of a hierarchy of suburban school districts. The quality of instructional programs and levels of student achievement were strongly associated with household incomes and the price of housing. A second result of "sorting" was that poor children "at risk" of school failure were increasingly left behind in central cities or isolated rural areas. This trend toward social separation has a long history in the public school systems of Michigan and other states. It did not originate with school choice policies.

Nevertheless, the introduction of school choice policies may well accelerate this trend. As already described, inter-district choice has contributed to a process of "upward filtering." In this process, students who take advantage of choice move to better (and better-off) districts. In the past, families had to purchase new houses to take advantage of the educational opportunities available in these districts. Now, school choice policies allow them to change schools without changing residence. This opens up opportunities for children whose parents cannot afford to move to desirable suburbs. At the same time, however, it tends to reinforce the social factors that increasingly segregate the neediest students in urban and other impoverished districts. These are the districts that already face the most difficult educational challenges.

From our interviews with school administrators, it is apparent that suburban school boards consider the racial composition of their own enrollments when they decide whether to participate in inter-district choice. For example, all of the districts bordering Benton Harbor have "opted out" of inter-district choice. Other districts have chosen to participate in inter-district choice but have managed their participation to ensure that the inflow does not significantly increase their percentage of minority students. Some charter schools also have pursued locational, curricular, and marketing strategies that make them especially available or attractive to members of particular ethnic or racial groups. In some cases, the "target market" is white students in districts where most of the students are members of minority groups.

Charter schools also accelerate the trend toward social separation, because they allow educators and parents to create schools that reflect the cultures and values of specific groups. In Michigan, for example, there are charter schools in which the curriculum affirms African-American, Armenian, and Native American cultures. The students enrolled in these schools are predominantly (and in some cases exclusively) members of the racial and cultural groups supported by the curriculum. Other charter schools emphasize "traditional" values, rather than the multicultural curricula used in public schools.

The opportunity to construct and serve niche markets is one of the key advantages of charter school providers. Parents in areas served by charter schools have access to a broader array of options, which allows them to choose schools that match their own values and preferences. One consequence is the creation of homogeneous school communities, in which children increasingly attend school with children who are "like them."

DO STUDENTS CHOOSE SCHOOLS, OR DO SCHOOLS CHOOSE STUDENTS?

A key policy question is whether and how schools should be allowed to select pupils. Should it be possible to exclude students who do not "fit" with the values that the school seeks to advance? Should it be possible to exclude students who are difficult or costly to educate? Exclusion may take place either before or after students are enrolled in a particular school. Many charter schools, for example, have adopted elaborate application procedures for prospective students. They require parents to fill out application forms or participate in interviews before enrolling their children. This makes it at least possible for administrators to discourage applications from students who might disrupt the school community. There also have been controversies over the expulsion policies of charter schools and the obligation of public school districts to enroll children excluded from charter schools. It is more difficult to exclude specific students who seek to enroll in neighboring districts through inter-district choice. However, districts that accept non-resident students try to maintain the prevailing social structure by regulating the number and types of incoming students.

In the scholarly literature on school choice, there has been widespread concern about the possibility of "creaming." "Creaming" involves the selection of only those students who are most able academically, leaving the most difficult students behind. We find little evidence that this is happening in Michigan. In fact, the available evidence (including the relatively low MEAP scores of charter school students) suggests that charter schools are particularly attractive to students who have not done well in regular public schools. There is strong circumstantial evidence, however, that "creaming" does take place on non-academic criteria, especially cost.

Since the approval of Proposal A, Michigan's public schools have been funded on the basis of per pupil grants from the state. These grants are the same for all students in a particular district.[20] It is obvious, however, that it costs less to educate some students than to educate others. It is far more expensive to educate high school students than elementary students, for example. High schools need libraries, laboratories, athletic equipment, and other specialized facilities and personnel. Elementary schools ordinarily do not.

The grants that the state provides typically exceed the average per pupil cost of educating elementary students, but fall short of the average per pupil cost of educating high school students. To address this problem, public school districts routinely spend less per pupil on the education of elementary students and more on the education of high school students. The parents of elementary students accept this because most elementary students will eventually grow up to be high school students. Over the course of 12 or 13 years, expenditures on students average out.

Charter schools enroll fewer special education students than neighboring public schools... even the few charter schools that do enroll special education students provide fewer and less costly services than nearby public schools.

School choice policies create an incentive for schools to recruit low-cost students and exclude high-cost students. One response to this incentive is that most charter schools in Michigan enroll only elementary students. Public school districts participating in inter-district choice face a similar incentive to open places for students in the lower grades.

Special education programs are also expensive. It costs far more than the average per pupil grant to educate a severely handicapped student. Public school districts participating in inter-district choice may therefore think twice about the cost of enrolling students from neighboring districts who need costly special education services.

For many charter schools, it would be prohibitively expensive to offer a full special education program. Consequently, they have an interest in excluding students who need these services. As the founder of a small charter school stated, "If a severely handicapped student enrolls in our school, we'll have to close."

Charter schools enroll fewer special education students than neighboring public schools. As a result, they enjoy lower costs than traditional public school districts. Analysis of the financial data that all schools submit to the MDE further suggests that even the few charter schools that do enroll special education students provide fewer and less costly services to these students than nearby public schools. In 1997-98 approximately 75 percent of all PSAs offered no special education services at all. On average, PSAs spent only about 1 percent of their current operating expenditures on special education services, far less than traditional public schools.

"Cost creaming" has two important consequences. First, it **reduces** average per pupil costs in schools that succeed in recruiting low-cost students. In charter schools operating only at the elementary level, the actual cost of providing education is significantly less than the per pupil grant provided by the state. This frees resources for other uses, including profit. Second, it **increases** average per pupil costs in schools that continue to educate high-cost students. In public school districts that maintain secondary schools and special education programs, the actual cost of providing education is far higher than in schools that do not provide these services. As these schools continue to lose low-cost students to charter schools and other competitors, they are truly required to do more with less.

WHO IS RESPONSIBLE FOR STUDENTS LEFT BEHIND BY CHOICE?

The opportunity to choose the schools their children attend makes some households better off. The "upward filtering" that we observe under inter-district choice policies provides clear evidence. Choice policies allow students to move to districts with more resources and better MEAP scores than those where they live. Charter schools give parents the opportunity to choose schools that more closely match their values and preferences.

Some students may be "left behind" by choice, however. First, some may be excluded from taking advantage of new educational opportunities by the selection policies of schools they wish to attend. In a system in which schools are explicitly or implicitly allowed to choose their students, some students will be far less attractive to schools than others. Students in Benton Harbor and Harrison do not benefit from choice policies because no alternatives to the local public schools have been made available to them.

Second, some students will be left behind in unsatisfactory schools because their parents "choose" to leave them there. Parents may fail to take their children out of poorly performing schools for a variety of reasons. They may lack information about alternatives. They may value the convenience and familiarity of their neighborhood schools, however bad these schools may be. They may be so overwhelmed with other problems that they cannot spare the attention necessary to choose among schools.

The adoption of school choice policies can make the situation of these pupils worse, as their better informed and more highly motivated peers depart for other schools and school districts. This is partly because the new options introduced by choice policies are likely to attract those households that might be expected to make the greatest effort to improve local schools, and partly because the departure of significant numbers of students may initiate a cycle of declining revenues and program cuts that further undermines academic performance. The opportunity for some households to improve the educational opportunities available to their children through choice makes those students who stay behind in failing schools worse off.

We do not see this as an argument against choice. We see no justification for depriving households of the opportunity to choose better schools for their children on behalf of those who fail to make good choices themselves. It is instead an argument for complementary state policies to address the problems facing Michigan's neediest students.

...school choice policies will only lead to improved educational performance if parents make choices based on the instructional quality of schools.

SUMMARY

The acceleration of social sorting in Michigan's education system under school choice policies is troubling for two main reasons. First, the positive consequences of school choice policies depend on parents (rather than schools) making choices. When schools are permitted to select and exclude students, some parents are denied the freedom to choose. This contradicts the fundamental purposes used to justify school choice. The problem is compounded when exclusion is based on the cost of educating particular students, including those who need special education services. The available evidence indicates that this kind of selection is an increasingly prevalent feature of school choice policies in Michigan. If left unchecked, it may come to dominate the market for schooling.

Second, and equally significant, school choice policies will only lead to improved educational performance if parents make choices based on the instructional quality of schools. The ability of parents to "vote with their feet" sends powerful signals to schools. If parents withdraw children from schools that provide poor instruction, the market is likely to produce system-wide improvements over time. If parents make choices based on non-academic criteria, however, they send different signals to schools. If parents base their choices on the social composition of the school community and the extent to which the school enrolls students who are "like" them and their children, the market for schooling will efficiently sort students according to the non-academic preferences of their parents. It will not encourage schools and teachers to improve the quality of educational services, because this is not what parents reward by their choices.

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CONCLUSION AND RECOMMENDATIONS

SHIFTING THE POLICY DEBATE

Only five years have passed since the approval of Proposal A. Even less time has elapsed since the Legislature passed bills establishing charter schools and inter-district choice. Responding to these policy changes takes time, for both parents and schools. It is still too soon to identify the full effects of school choice policies in Michigan. Likewise, it is far too soon to say that the consequences of these policies have been predominantly beneficial or harmful.

Critics of Michigan's choice policies point to this uncertainty about the impact of choice policies as a reason to limit the further expansion of choice opportunities. We agree that Michigan's citizens and taxpayers need to know more about the operation of PSAs and inter-district choice. They also need to know how these policies are affecting the state's educational system. Nevertheless, we argue in support of further expansion of educational choices. We believe that parents should have more discretion over the educational experiences their children receive for two main reasons:

1. First, equity. The ability to choose schools has always been available to middle and upper class households. Poorer families have had little or no choice about the schools their children attend. In fact, low-income households (in Michigan and elsewhere) generally have access to only the most troubled public schools. School choice policies reduce the cost of mobility. This is especially important for families whose choices are now most restricted.
2. Second, parental empowerment. The possibility that parents will penalize schools by choosing to enroll their children elsewhere has made many public schools more responsive to parental preferences. Faced with competition from charter schools and neighboring districts, schools and districts have added new programs and invited more parental involvement. Our interviews consistently suggest that the introduction of school choice policies has increased responsiveness to parents, even in districts that have not lost enrollments. Such developments should be welcomed and encouraged.

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As we endorse the further expansion of school choice policies, however, we suggest that policy makers focus on the potential impacts of these policies. We believe that policy debate should not focus on the sterile and polarized question of whether school choice policies are "good" or "bad." Instead, the debate should center on a more practical question. How do we design policies that maximize the benefits of choice and minimize its harmful consequences?

Policy makers must come to terms with the fact that school choice policies produce both losers and winners. This is true among school districts, among schools, and among students. School districts in poor areas of Michigan remain under extreme duress. Their difficulties have been intensified by the introduction of school choice policies. In response to choice policies, some of these districts have mobilized to undertake long-needed changes aimed at improving school services. It is too early to know whether these reforms will be sufficient to stem the exodus of students and dollars and reverse the downward spiral, however. In other districts, it is likely that the loss of students and revenues has reached a pace that is virtually certain to overwhelm any competitive response. Reliance on the market for schooling will not and cannot improve the schooling provided to children enrolled in these districts. It may well make it worse. It is urgently important that Michigan have a response strategy in place to address the possibility that one or more of these districts may collapse.

THE RULES MATTER

Some advocates of school choice policies argue that rules and regulations in the market for schooling are unnecessary or even harmful. For these advocates, the market for schooling is like any other market. Parents know best what kind of education they want for their children, and their preferences are paramount. By their enrollment decisions, parents prove that schools are providing wanted services. The sole criterion for the "success" of choice policies is the fact that parents make choices.

We disagree with this position for three reasons. First, the market for schooling is not like the market for toothpaste or automobiles.[21] Most parents have too little information about schools' academic programs to make careful choices among schools. If parents make poor choices, however, their children cannot shift easily or costlessly to another "brand." It is hard to change schools, and most households do not do so lightly. Furthermore, the right to a publicly funded education is inscribed in the Michigan Constitution. It is the state's responsibility to ensure that all children can and do enroll in school. The citizens of Michigan have a common interest in guaranteeing that publicly-funded schools are successful, while the state has a Constitutional obligation to protect parents and students against the costs of school failure. Choices about schooling cannot be left solely to parents or the "market."

Second, schools of choice are public schools funded with public money. Because of this, they should be accountable to those who pay their bills. Public accountability requires more than simply letting the "market" decide what kinds of schools shall be provided and who will attend them. Parents should be given greater freedom to choose the schools they think best for their children. This does not mean that all parent choices should be publicly financed, however. It also does not give state government agencies the right to abdicate responsibility for ensuring the quality of education in publicly-funded schools. These agencies have a responsibility to ensure that tax dollars are used for public purposes.

Third, parents' choices among schools are not based only on academic criteria. When parents make choices among schools on the basis of instructional quality, competition among schools may lead to innovation, imitation, and improved educational outcomes for all students. Parents may also choose schools on the basis of other criteria, however, including safety, convenience, child care arrangements, extra-curricular programs including athletics, and the racial or ethnic composition of the student body. When parents make choices based on non-academic criteria, competition among schools will not necessarily lead to improved educational outcomes. Instead, it creates incentives for schools to tailor their programs to the preferences of specific groups of parents. Some of these preferences may contribute to improved opportunities for all students, but others may not.

The rules that govern school choice have a critical impact on the overall educational and social effects of school choice policies. Policy makers should seek to design rules that encourage positive outcomes and protect students and citizens against the harmful consequences of a poorly-structured market for schooling. We believe that the agencies of state government have a critical role to play in setting and enforcing the rules that govern school choice. They must ensure that the market for schooling advances the purposes of the public school system and that public money is used to support these purposes.

RECOMMENDATIONS FOR SCHOOL CHOICE POLICY

Our recommendations for school choice policy are aimed at making the emerging school "market" work more efficiently and effectively. In the discussion that follows, we focus on five sets of issues. First, we argue that competition among schools requires a level playing field that allows all publicly-funded schools to compete on similar terms. In our view, therefore, an important policy goal is to limit any unfair advantages and disadvantages that different kinds of schools bring to the market.

Second, we argue that public policy should ensure full accountability for the use of public resources. School accountability has three key dimensions: academic, financial, and administrative. Improved accountability requires the development of explicit educational standards and goals for schools, along with mechanisms to monitor performance and improvement. Financial accountability requires that all schools receiving public funds should follow the same accounting standards, in order to increase transparency and allow public oversight of resource allocation.

Third, we argue that the Michigan Legislature should take additional steps to ensure public access to full information about the programs and performance of individual schools. This can benefit both parents and educators. Clearly, parents need good information to make good choices among schools. It is also in the best interest of Michigan's taxpayers and citizens to disseminate information about what different schools are doing. Knowing "what works" will encourage schools to abandon ineffective practices and imitate and refine effective ones.

Fourth, we argue that Michigan's current school choice policies sometimes create perverse incentives that work against the accomplishment of key public purposes. Specifically, they encourage PSAs to recruit students who are less costly to educate. Adjusting these incentives could encourage educators to develop programs that better serve the needs of Michigan students. Better incentives can also help to ensure that school choice policies expand opportunities for those students who are most in need of new educational alternatives.

Finally, we argue that the Legislature and the MDE have an obligation—embodied both in the Michigan Constitution and in legislation—to ensure that all children have equal access to educational opportunities. This means that parents should be free to choose among all of the schools available to them, and that public schools should not be allowed to choose the pupils they wish to enroll. It also means that the agencies of state government should take active steps to "turn around" failing schools. Or, they must ensure that good alternatives are available for children whose schools fail.

Fair Competition Requires a Level Playing Field

Charter schools face a number of obstacles in their efforts to compete with traditional public schools. The most obvious of these is the lack of facilities. Buildings in public school districts are constructed with public resources, financed with bonds approved by local voters. Because their capital costs are supported by bonds, the per pupil grant that the district receives from the state can be devoted entirely to the operating expenses of the district. In charter schools, in contrast, buildings must be rented (or built) by the charter school operator, and paid for out of the operating subsidy provided by the state. Public school districts can also use their bonding capacity to acquire new technology for their schools, while charter schools must fund technology purchases from their operating subsidy.

The lack of capital funding or bonding capacity is a significant handicap to educators who might wish to open charter schools. The financial difficulties that it imposes have obliged many formerly independent charter schools to establish relationships with EMOs.

Facilitating access to start-up capital and technical assistance for new charter schools would allow these schools to compete on a more equitable basis with traditional public schools. This could be done through the authorization of state bonding capacity to support the construction of charter schools and their acquisition of educational technology.

Providing additional public support for charter schools would require careful safeguards to ensure that these resources are used in ways that correspond to educational policy objectives, and that taxpayers are protected against financial risks and the possibility of fraud. Additional public support would necessarily imply additional public accountability. Because PSAs do not face the electoral check that school districts must meet when they issue bonds, the chartering agent would have to assume the financial risk and responsibility associated with increased access by PSAs to public funds or credit. Chartering authority would then be limited to agents willing and able to assume such risk and responsibility.

Schools that Receive Public Funds Are Accountable to the Public

By itself, the market does not hold schools accountable. For Michigan's citizens and taxpayers, it is not enough to rely simply on the "market" and say "the schools are accountable to parents." The choices of educators and parents may not always correspond to the purposes of public education. The Legislature should establish a policy framework that sets more explicit standards for the academic and financial performance of schools. The Legislature should also ensure that the responsibility for monitoring and oversight within the education system is clearly assigned, and that administrative agencies have sufficient capacity to ensure compliance with public policies.

Academic Accountability. There are two ways in which the establishment of standards and goals could enhance academic accountability. The first is through the development of stronger criteria for the issuance and renewal of charters. The second is through the development of an explicit procedure for accrediting schools.

A properly designed accreditation system would incorporate a broader and more meaningful range of educational input and outcome measures than the present system, and provide more complete information and better incentives. Parents and policy makers now must rely heavily on MEAP scores to make direct comparisons among educational alternatives, because they have little other information. Quite apart from the serious limitations of MEAP scores as meaningful measures of school performance, the excessive weight assigned to MEAP as a barometer of school quality creates perverse incentives that undermine the core purposes of school choice policies. This happens in two important ways. First, reliance on MEAP as a strategy for evaluating and comparing schools discourages experimentation and innovation. The energy and attention lavished on raising MEAP scores is a disincentive for educators who might otherwise seek to develop improved instructional strategies. Second, comparing schools on the basis of MEAP scores creates an incentive for schools to recruit students likely to do well and to exclude students likely to do badly on the MEAP. This is contrary to one of the core purposes of school choice policies, which is to expand opportunities for children who are badly served by the present educational system.

Financial Accountability. The Michigan Department of Education should establish transparent and parallel accounting standards for school districts and charter schools. This includes schools managed by private sector companies. Every year, public schools account for every dollar. They make this information publicly available. Charter schools, management companies, and chartering agents should do this also. Parents are entitled to know how their children's schools use money provided by the state. Taxpayers also are entitled to know how their tax dollars are being spent.

Administrative Accountability. The division of oversight responsibility for charter school performance needs clarification. Currently, this responsibility rests among the MDE, chartering agents, and the State Board of Education. On the one hand, charter schools face a very heavy accountability burden. They must answer to all of these different agencies, as well as their governing boards and EMOs. On the other hand, it is not clear that any of these agents is closely monitoring charter school activities.[22] The Charter Schools Office within the MDE does not have the resources or the capacity to fulfill these oversight responsibilities. This office can play a valuable role in collecting and disseminating information, but responsibility for PSA oversight and accountability must rest with the chartering agents.

Chartering authority should be limited to agencies that are willing and able to ensure the academic and financial accountability of the PSAs that they charter. School choice policies should ensure that chartering agents hold their schools accountable. At present the chartering agents are funded on the basis of the number of students enrolled in schools that they charter. This payment mechanism provides no incentive for rigorous attention to monitoring what goes on in charter schools.

Careful and systematic oversight is crucial. A report by the Office of the Auditor General indicated problems with basic principles of public administration in some charter schools.[23] The responsibility for monitoring and correcting such problems is not clearly assigned. In addition, the most effective rebuttal to those who seek to restrict choice or EMOs is clear documentation that they are successful in attaining high performance standards.

The Market for Schooling Requires Information

In the education system, the market does not function efficiently by itself. Both consumers and suppliers lack full information about the choices available to them. Access to this information is crucial, because it sends important signals to parents who are trying to make good choices. It also helps educators who are trying to improve performance and make decisions about where to locate their own schools. The accountability measures noted above will eliminate some of the most severe potential problems of imperfect information, but an efficient market requires more. The publication of fuller information in the areas of teaching, learning, and management can increase transparency and improve the incentives facing schools, management companies, and chartering agents. It can help ensure equal access for all students, including students with special needs.

The fullest possible dissemination of information also works toward public purposes. All of Michigan's citizens and taxpayers benefit when public schools do an excellent job and all Michigan students have access to excellent schools. Unequal access to information works against these purposes.

If the programs in one school work exceptionally well, it is in the public interest to make information about those programs widely available. Other schools can then imitate them to improve their own programs. If some schools are performing better than others, it is in the public interest to ensure full and equal access to this information. Parents can then choose the best available schools for their children.

Full access to information regarding school administration and governance is also important. If EMOs discover ways to improve school efficiency and effectiveness, this information should be be publicly available. Other schools and districts can then adopt innovative practices and improve education for all Michigan students. When information is privately held or available only to "insiders," the market does not function efficiently and public purposes are subverted.

Equitable access to information is essential if all parents and students are to have equal access to public schools. In Michigan, many charter schools rely heavily or exclusively on "word of mouth" as an advertising strategy. This obviously favors insiders over outsiders and works to exclude children who are not members of the communities already served by specific schools.

The Legislature should act to establish a more comprehensive information base on the academic and managerial practices of all public schools in Michigan. Households should have access to annual reports on schools that include information necessary for good choices. For example, annual reports might usefully include information on teachers' salaries, qualifications, and turnover, library and computer resources, internal budget allocations (expenditures on instruction, administration, facilities, etc.), and rates of attendance and student mobility. Reports could also include descriptions of schools' curricula and instructional practices (e.g., Chicago math, phonics, etc.), and special academic programs. Reports could identify which school services were being supplied by which EMOs. Publishing this kind of information for all schools would allow parents to make more informed choices.

Michigan's charter school legislation requires PSAs to report information about new teaching techniques or methods to the chartering agent, so that the information can be made available to the public. At present, however, there are no effective mechanisms for diffusing this information. There is no way to know what works, what doesn't work, and which schools are doing what. Chartering agents should collect information regarding the practices—successes and failures—of their charter schools. Parallel information should be collected by ISDs for school districts within their region.

Creating mechanisms for the dissemination of this information within the MDE and ISDs will inform parental choices, help schools learn from one another, and support the adoption of best practices. PSAs and traditional public school districts could submit their annual reports to both their local ISDs and to the MDE. The MDE could make these reports available on the internet.

In addition, ISDs could publish annual reports that describe the programs available in local school districts and charter schools. Information about enrollment opportunities and procedures for enrollment application could be included in the reports. Mailing these reports to all households with children would provide more information to the households most in need of educational alternatives. It would also limit the unfair advantage of schools that provide information only to those households they wish to attract.

Policy Incentives Should Be Aligned with Public Purposes

Michigan's school choice policies create powerful incentives for actors in all parts of the education system to adopt policies and practices that will make their schools attractive to parents and students. The success and even the survival of their schools now depend on their capacity to attract and retain students.

Because incentives are such powerful policy instruments, it is essential that they be aligned with the fundamental purposes of the public school system. Over time, carefully designed school choice policies have the potential to bring about real improvements in Michigan schools. Current school choice policies embody perverse incentives, however.

Some students cost more to educate than others. Secondary schooling is more costly than primary schooling. Students with handicaps or other special needs may require costly special services. Successfully educating students from poor households, or students whose first language is not English, or students with academic deficiencies, imposes additional costs on schools that provide support services.

Ignoring differences in the cost of educating different students, as Michigan's school choice policies tend to do, creates an incentive to recruit low-cost students and exclude high-cost students. Educators and EMOs have responded to this incentive. Most charter schools are elementary schools, with few offering schooling beyond the eighth grade. Some schools and school districts have profited by offering low-cost "alternative" programs for older students. Only a small fraction of charter schools provide special education services to their pupils.

Creating incentives for schools to recruit low-cost students is quite different from creating incentives to improve educational quality for all students. Moreover, schools that succeed in attracting low-cost students can do so only by **raising** the average per pupil costs of their competitors, who must continue to provide services for high-cost students. This represents an unfair advantage for schools that restrict the entry of high-cost students by not offering the services they need.

Allowing some schools to exclude high-cost students contributes to deterioration in the educational services provided to students left behind by choice. Faced with rising per pupil costs and declining revenues, their schools have to do more with less. This means cuts in programs and services, in schools and school districts that already face very difficult educational challenges. The departure of low-cost students from any district will tend to exacerbate conflicts over resource allocation.

Public policies can respond to this problem in two ways. One approach is regulatory. The Legislature could establish rules and enforcement mechanisms that would prevent schools from taking unfair advantage

of the incentives created by school choice policy. For example, the MDE could establish a uniform process for application and enrollment at charter schools across the state. This would limit opportunities for schools to enroll or exclude students on the basis of cost, race, or academic or athletic ability.

It is also important to adjust the incentives themselves, in order to ensure that school choice policies improve educational opportunities for all students. At a minimum, the state should adjust the funding formula for schools to provide a stronger incentive for educators to develop services for **all** students, and not just those who are easiest or cheapest to educate. A first step would be to establish separate funding levels for elementary and secondary students in regular academic programs, so that the revenues provided by the state correspond more closely to the actual cost of educating pupils at these levels. More generally, the Legislature should think about how to structure financial incentives within the school choice system in ways that would encourage educators and EMOs to take on the challenge of providing opportunities for those students who are most difficult and most costly to educate.

Schooling for All Children is a Public Responsibility

The Legislature should explicitly provide for the assignment of residual responsibility for the education of students in the event that a school or district fails. Under current policies, there appears to be an assumption that pupils can return to their local schools if a charter school closes. That option is not assured. Some public school districts are already under extreme duress. An increasing loss of students and the associated loss of revenues raises the possibility that one or more of them will "fail" in the near future. It is not clear what would happen to the remaining students or who would be responsible for their education.

In the emerging market for schooling, there will be both losers and winners. Some students will take advantage of new school choice opportunities. Others will benefit as their schools and districts respond to competitive pressures. Students in Michigan's most troubled schools and districts, however, are likely to be losers unless the state protects their interests. This responsibility cannot simply be delegated to the market. The operation of market forces in the educational system will almost certainly have a negative impact on Michigan's most vulnerable children. Many of these children already receive an unacceptable education in the schools they attend. As the market draws additional resources from their districts, their situation will simply grow worse.

The Legislature can take preventive action before these districts collapse. One possibility is to provide technical assistance to school districts at risk of failure. The MDE established an exemplary precedent for this in its program to provide technical assistance to "unaccredited" elementary schools as part of the state accreditation policy. Provision of such technical support would be a valuable complement to choice policies. In many urban areas, the institutional capacity for providing this kind of technical assistance already resides in the ISD. Choice policies should be constructed to develop this capacity further and create mechanisms for them to provide this assistance to both PSAs and failing public schools.

Other possibilities include a takeover of the school district by the state or the ISD, or consolidation with neighboring school districts. There are precedents for both of these alternatives as well.

Regardless of the alternative chosen, it is clear that the market cannot solve the problem of failing schools. The Legislature must take strong action to ensure a quality education for all of Michigan's students.

POLICY DEBATE SHOULD BE GUIDED BY EVIDENCE AS WELL AS ARGUMENT

We conclude this report with an observation. As we noted at the outset, school choice policies are often debated in terms of basic values. This is appropriate. Choice policies must also be evaluated in the light of their full consequences, however, and not simply in terms of values or rights. Reckoning the consequences of particular choice policies based on the collection and evaluation of evidence clearly complicates overall assessments. Policies may not work out as intended. They may benefit some while harming others. And, they may advance some worthy values at the expense of others.

The school choice debate thus requires attention to evidence about consequences. While this report is not the last word on this score, it does contribute new information and perspectives about how Michigan's current school choice policies are working. The record of policy implementation is mixed, featuring some benefits and some costs. We have also identified refinements that will make school choice policies work better.

We therefore recommend that Michigan's choice policies be carefully studied to assess their actual consequences, then shaped progressively to increase the benefits and to minimize the liabilities. As the protector of every citizen's right to a quality education, state policy makers must take an active role in shaping school choice policies so that they benefit all of Michigan's children.

APPENDIX

DESCRIPTION OF RESEARCH

This report is based on an ongoing program of research at Michigan State University. Over the past three years, an interdisciplinary team of investigators has been studying the impact and effects of the new choice policies in Michigan. The Working Group on School Choice includes members from four MSU Colleges: Education, James Madison, Business, and Social Science. The authors of this report are members of this group.

Members of the Working Group have sought and received external funding for a variety of studies on school choice. They have organized seminars, presented work in progress, and invited experts on issues related to school choice from around the country and around the world to discuss their work. They also have sponsored a number of doctoral students who are conducting dissertation research on school choice issues in Michigan. This report has benefited from their work as well.

Our report draws on a wide range of quantitative and qualitative data, only a portion of which are presented here. We have assembled a series of interconnected databases on public schools and school districts in Michigan. Our data archive draws together extensive information on all of Michigan's public school districts including:

- enrollment (from the Michigan Department of Education, MDE)
- revenue by source (MDE)
- expenditures by function and type (MDE)
- other measures of educational inputs, e.g., class size, teacher salaries (MDE)
- measures of educational outcomes, e.g., graduation rates, MEAP scores (MDE)
- a wide range of socioeconomic characteristics, including family income, poverty, parents' education, racial composition, housing (U.S. Census Bureau and MDE)

Since PSAs have an equivalent status to school districts in Michigan, our charter school database contains nearly all of the preceding variables that were obtained from the MDE. Our PSA database also tracks the chartering agent, grade level, curricular focus, EMO contracting, and school conversion status. Our 'transactions' database documents the flow of students across district boundaries under

Michigan's inter-district choice program. Finally, all of our school district and PSA data have been geo-coded for display on digital maps and for spatial analysis.

Our qualitative data provide an important additional dimension to our study of how choice policies have affected schools and school districts. We conducted face to face interviews from 1996 to the present with district and Intermediate School District superintendents and assistant superintendents in Clinton, Eaton, Ingham, Genesee, Jackson, Kent, Macomb, Oakland, and Wayne Counties. These interviews lasted from 60 to 120 minutes and focused on how the new choice policies were affecting the districts and how the districts were responding. To date, we have interviewed nine ISD superintendents, 42 public school district superintendents, and four private school superintendents, with some interviews repeated across years.

To gain additional perspective on the impact of choice, we also conducted face to face interviews of approximately 60 minutes duration with eleven teacher union representatives, including both state-level officials and local union presidents, and nineteen school principals from public, private, and charter schools. These interviews took place during the 1997-98 and 1998-99 school years. We have conducted ten additional interviews with other knowledgeable sources, including chartering agents, EMO operators, association representatives, local politicians, and college presidents.

We also have administered telephone surveys to a sample of public, private, and charter school principals and to the members of local public school boards, primarily in Ingham County. These surveys were carried out in 1997-98. We contacted 189 principals and completed surveys with 156 (144 public, 39 private, 6 charter school) for a response rate of 83 percent. Likewise, we contacted 120 school board members and completed surveys with 102 for a response rate of 85 percent. These interviews queried respondents on their views about Proposal A, inter-district transfers, and charter schools, asking both how these new policies have affected their schools and districts, and how they have been responding.

Finally, members of the Working Group on School Choice have visited several dozen charter schools over the past two to three years, interviewing principals and teachers and observing school activities. We have been engaged over the past three years in an intensive field study of five urban, elementary charter schools, located in several Michigan cities. Over this period we have conducted repeated interviews with the principals of these schools and with teachers in individual and focus group formats. We also have conducted full-day observations of instruction in sample classrooms, concentrating on mathematics and literacy, and have observed a wide variety of whole-school events. We also have assembled a common information base on

each of the schools, updated each year, and have collected a broad range of school documents and artifacts for analysis. In progress are paper and pencil surveys of the faculties of these schools, plus telephone surveys of a sample of parents.

Members of our research team have conducted a number of other studies related to the issues addressed in this report. One of these studies examines how Michigan's PSAs are spending the revenues they receive, analyzing patterns in the distribution of their expenditures and making comparisons to the expenditures of traditional public school districts. Another study compares characteristics of charter school and regular public school teachers, examining such variables as years of experience, age, and salary. Members of the Working Group on School Choice have several other studies in progress that examine the experience with school choice in Michigan and elsewhere. This on-going work includes theoretical, empirical, and policy-oriented research.

NOTES

[1] We define "school choice" as the full array of educational policies that have been or may be adopted by state and local policymakers to expand parents' opportunities to select their children's schools. This report concentrates on two such policies, inter-district transfers and charter schools. Other policies include intra-district transfers, where students may attend any of the schools operated within a particular district; magnet and alternative schools operated by public school districts; cooperative ventures that open up college and university attendance to high school students; and the introduction of school vouchers or tuition tax credits that may be redeemed by parents at private as well as public schools.

[2] In Michigan, charter schools are formally identified as Public School Academies or PSAs. For this report, we use the terms charter school and PSA interchangeably. By definition, all of the schools to which parents have access under current school choice policies are "public schools." However, we use the terms "public schools" and "public school districts" to refer to the schools in a student's resident school district. Charter schools or schools in nearby school districts that might be available under inter-district choice are not included in this usage.

[3] As we write these words, proponents of expanded choice have announced their intention to place an initiative on the ballot in Michigan in November, 2000. The proposed initiative would remove the Constitutional prohibition on public support for private and religious schools. It also would introduce vouchers for parents in some Michigan school districts. This report does not address issues specific to the voucher proposal as a new form of school choice policy. However, many of the issues raised by the introduction of school vouchers may be illuminated via evidence on the impact of other choice policies. For example, regardless of the choice mechanism (e.g., vouchers, charter schools, or inter-district transfers), a critical question concerns the fate of the schools and students who are "left behind" when some students withdraw to attend other schools. Consequently, we believe that with proper caution this report can help inform the debate over the voucher proposals that is unfolding in Michigan.

[4] The per pupil grant that each district receives depends also on the amount that each district spent before the approval of Proposal A. Districts that raised large amounts of revenue from local property taxes were "held harmless" under Proposal A. These districts continue to spend more than charter schools or neighboring school districts are able to spend, which gives them a significant competitive advantage.

[5] Charter schools receive the same per pupil allocation from the state as the public school district in which the charter school is located, up to a maximum of $5962 in 1998-99.

[6] Amy Stuart Wells. *Beyond the Rhetoric of Charter School Reform: A Study of Ten California School Districts.* Report of the UCLA Charter School Study. Los Angeles, 1998.

[7] Michigan's charter school law requires that teachers in PSAs chartered by public school districts be covered by the district's collective bargaining agreement. This provision is observed in some schools chartered by public school districts, but not in all.

[8] All of the maps included in this report can be viewed on the Internet at the following address: http://edtech.connect.msu.edu/choice/maps. Those interested can enlarge any sub-region of the state to obtain more detail on local mobility patterns.

[9] Horn and Miron present data on the racial composition of students in Michigan's PSAs. In their sample of 51 PSAs outside southeastern Michigan, they found that the percentage of minority enrollments in PSAs has been declining over time, decreasing from 51 percent in 1996/97 by approximately 12 percent in each of the two years thereafter. However, the other state evaluation report by Public Sector Consultants/Maximus, Inc. found stable, high minority enrollments in the PSAs that they sampled within southeastern Michigan. We credit both reports, regarding these as accurate, regional differences in enrollment trends. See Jerry Horn and Gary Miron, *Evaluation of the Michigan Public School Academy Initiative*, Kalamazoo, 1999; and Public Sector Consultants, Inc. and MAXIMUS, Inc., *Michigan's Charter School Initiative: From Theory to Practice*, Lansing, 1999.

[10] The Michigan Department of Education collects and disseminates MEAP scores in several different subject areas and at varying grade levels. Our analysis of these alternative scores indicated that the percent satisfactory on the 7th grade math test was the single best predictor of school district performance across the range of available MEAP scores.

[11] Some rural districts have very few students, so even a handful of student movers produce significant percentage changes in enrollment. Fewer than 10 students moved into each of the three districts that enjoyed the state's largest percentage enrollment gains from inter-district choice.

[12] Data compiled by the Ingham ISD, for example, show that the number of students "lost" by member districts is smaller than the number "gained," which suggests that a significant number of the students participating in interdistrict choice are new to the public school system.

[13] W. Clark Durant. "The Gift of a Child, The Promise of Freedom: Creative Approaches to Learning, Teaching, and Schooling." *The Freeman* 47 (6), 360-364.

[14] Information on the operation of EMOs comes from the two evaluation reports cited above, and from Bradley Carl, "Educational Management Organizations in Michigan." Paper presented to the annual meeting of the American Educational Research Association. Montreal, April 1999.

[15] Chartering agents also charge fees to PSAs. Like EMOs, they are not publicly accountable for the use of these funds.

[16] Michigan's charter school law requires PSAs to provide information about innovations in curriculum and instruction to their chartering agents, who are responsible for making this information available to the public.

[17] Meaningful comparisons of academic performance across schools would at a minimum require controls for the socio-economic composition of the student body and the length of time that students have been enrolled in a particular school. Ideally such comparisons would look at the **learning gains** that particular students made in a particular year in a particular school, and not just at test scores at a single moment in time.

[18] Another example of a school district that developed an innovative program to compete with its neighbors was the Romulus School District, which chartered an alternative school in Detroit and enrolled a substantial number of Detroit students. The revenues from the charter school were used to underwrite programs in Romulus. Following a public outcry, Michigan's charter school law was changed to prohibit school districts from chartering schools outside their own boundaries.

[19] In the language of economics, the departure of substantial numbers of children from some school districts imposes negative externalities for the children who remain in these districts. Moreover, the distribution of the external costs is perverse, since the burden falls disproportionately on low-income households. Thus this market failure is both inefficient and inequitable. Resolution of this problem requires government action; individual choices coordinated by markets will not generate efficient outcomes.

[20] In addition to the basic per pupil grant, the state provides some supplementary funding for "at risk" and special education students.

[21] Of course, even the markets for toothpaste and automobiles are regulated by the government to ensure that consumers purchase safe and effective products that do not impose excessive environmental costs on others. Rules that reduce uncertainty for consumers can help to expand markets and improve their efficiency.

[22] This problem has been noted in previous reports, including the state-mandated evaluations cited above in note 9.

[23] Michigan. Office of the Auditor General. *Performance Audit of Charter Schools Office and Michigan Resource Center for Charter Schools, Central Michigan University.* Lansing, October 1997.